INSURANCE AUSTRALIA GROUP LIMITED
PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2014

APPENDIX 4E (ASX Listing rule 4.3A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	**2014 $m**	2013 $m
Revenue from ordinary activities	Up	17.8 %	**12,679**	10,760
Net profit after tax from continuing operations attributable to shareholders of the Parent	Up	16.0 %	**1,233**	1,063
Net loss after tax from discontinued operation attributable to shareholders of the Parent	Down	100.0 %	**-**	(287)
Net profit/(loss) attributable to IAG shareholders	Up	58.9 %	**1,233**	776

DIVIDENDS - ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Final dividend	26.0 cents	26.0 cents
Interim dividend	13.0 cents	13.0 cents

FINAL DIVIDEND DATE	
Record date	10 September 2014
Payment date	8 October 2014

The Company's Dividend Reinvestment Plan (DRP) will operate by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 11 September 2014. The DRP Issue Price will be based on a volume weighted average price for a 15 day trading window from 15 September 2014 to 3 October 2014 inclusive.

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

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

The report is based on the consolidated financial statements which have been audited by KPMG.

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

ANNUAL REPORT 30 JUNE 2014

Insurance Australia Group
Annual Report 2014

THE NUMBERS

Insurance Australia Group

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923

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KEY DATES

2014 financial year end	30 June 2014
Full year results and dividend announcement	19 August 2014
Notice of meeting mailed to shareholders	8 September 2014
Final dividend for ordinary shares Record date Payment date	 10 September 2014 8 October 2014
Annual General Meeting	30 October 2014
Half year end	31 December 2014
Half year results and dividend announcement	20 February 2015*
Interim dividend for ordinary shares Record date Payment date	 4 March 2015* 1 April 2015*
2015 financial year end	30 June 2015
Full year results and dividend announcement	21 August 2015*

* Please note: dates are subject to change. Any changes will be published via a notice to the Australian Securities Exchange

2014 ANNUAL GENERAL MEETING

IAG's 2014 annual general meeting will be held on Thursday, 30 October 2014, at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, commencing at 10.00am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders, and available online at www.iag.com.au, from Monday, 8 September 2014.

2014 ANNUAL REPORT SUITE

The 2014 annual report of Insurance Australia Group Limited (IAG, or the Group) includes IAG's full statutory accounts, along with the Directors', remuneration and corporate governance reports for the financial year 2014.

Please read this report together with the 2014 annual review, which provides a summary of IAG's operational performance, including the Chairman's and CEO's reviews. If you do not receive a copy of the annual review, you can access an interactive version online from the home page of our website at www.iag.com.au.

As with last year, this year's annual review includes information about the sustainability performance of the business. Detailed information about IAG's business sustainability performance is available from www.iag.com.au.

To have a copy of the annual report mailed to you, contact IAG's Share Registry using the contact details on page 124.

All figures are in Australian dollars unless otherwise stated.

RECYCLED PAPER CHOICE

This report is printed on Nordset an environmentally responsible paper produced from FSC® Mixed Sources Chain of Custody (CoC) certified pulp from well managed forests, is Elemental Chlorine Free (ECF) and is made Carbon Neutral. Nordset is manufactured by Nordland Papier, a company certified with environmental management systems ISO14001 and EMAS, the EU Eco-Management and Audit Scheme (Reg.No.D-162-00007) Nordset has also been awarded the EU "Flower" eco-label certification.

FIVE YEAR FINANCIAL SUMMARY

	2014	2013	2012[a]	2011[a]	2010[a]
	$m	$m	$m	$m	$m
Gross written premium	**9,779**	9,498	8,495	8,050	7,782
Premium revenue	**9,721**	9,135	8,046	7,858	7,621
Outward reinsurance premium expense	**(1,077)**	(817)	(700)	(620)	(556)
Net premium revenue	**8,644**	8,318	7,346	7,238	7,065
Net claims expense	**(5,201)**	(4,982)	(5,421)	(5,089)	(5,072)
Underwriting expenses	**(2,303)**	(2,178)	(1,994)	(1,978)	(2,054)
Underwriting profit/(loss)	**1,140**	1,158	(69)	171	(61)
Net investment income on assets backing insurance liabilities	**439**	270	914	489	554
Insurance profit/(loss)	**1,579**	1,428	845	660	493
Net investment income from shareholders' funds[b]	**396**	347	89	213	96
Other income	**199**	175	164	264	256
Share of net profit/(loss) of associates	**(8)**	(29)	(13)	(8)	3
Finance costs	**(98)**	(95)	(97)	(86)	(88)
Corporate and administration expenses	**(255)**	(208)	(205)	(259)	(245)
Amortisation expense and impairment charges of acquired intangible assets and goodwill[c]	**(11)**	(25)	(20)	(170)	(113)
Profit/(loss) before income tax	**1,802**	1,593	763	614	402
Income tax expense	**(472)**	(424)	(177)	(276)	(212)
Profit/(loss) after tax from continuing operations	**1,330**	1,169	586	338	190
Profit/(loss) after tax from discontinued operation	**-**	(287)	(321)	-	-
Net profit attributable to non-controlling interests	**(97)**	(106)	(58)	(88)	(99)
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited	**1,233**	776	207	250	91
Ordinary shareholders' equity ($ million)	**6,568**	4,786	4,343	4,417	4,486
Total assets ($ million)	**29,657**	24,859	25,132	23,029	20,442
PREMIUM GROWTH					
Gross written premium	**3.0 %**	11.8 %	n/a	3.4 %	(0.8)%
KEY RATIOS					
Loss ratio[d]	**60.2 %**	59.9 %	73.8 %	70.3 %	71.8 %
Expense ratio[e]	**26.7 %**	26.2 %	27.1 %	27.3 %	29.1 %
Combined ratio[f]	**86.9 %**	86.1 %	100.9 %	97.6 %	100.9 %
Insurance margin[g]	**18.3 %**	17.2 %	11.5 %	9.1 %	7.0 %
SHARE INFORMATION					
Dividends per ordinary share - fully franked (cents)	**39.00**	36.00	17.00	16.00	13.00
Basic earnings per ordinary share (cents)	**56.09**	37.57	10.01	12.08	4.39
Diluted earnings per ordinary share (cents)	**53.62**	36.44	9.96	12.01	4.36
Ordinary share price at 30 June ($) (ASX: IAG)	**5.84**	5.44	3.48	3.40	3.41
Convertible preference share price at 30 June ($) (ASX: IAGPC)	**106.44**	101.88	98.10	-	-
Reset exchangeable securities price at 30 June ($) (ASX: IANG)	**107.00**	102.80	99.30	103.00	100.00
Issued ordinary shares (million)	**2,341**	2,079	2,079	2,079	2,079
Issued convertible preference shares (million)	**4**	4	4	-	-
Market capitalisation (ordinary shares) at 30 June ($ million)	**13,671**	11,310	7,235	7,069	7,089
Net tangible asset backing per ordinary share ($)	**1.29**	1.38	1.20	1.23	1.16

(a) The financial information for 2012 has been re-presented to reflect the treatment of the United Kingdom business as a discontinued operation. Financial information for 2011 and 2010 is not re-presented.
(b) This included an unrealised loss on embedded derivatives of $96 million for 2010.
(c) This included impairment charges for acquired identifiable intangible assets and goodwill of $150 million for 2011 and $87 million for 2010.
(d) The loss ratio refers to the net claims expense as a percentage of net premium revenue.
(e) The expense ratio refers to the underwriting expenses as a percentage of net premium revenue.
(f) The combined ratio refers to the sum of the loss ratio and expense ratio.
(g) Insurance margin is a ratio of insurance profit over net premium revenue.

CORPORATE GOVERNANCE

INSURANCE AUSTRALIA GROUP LIMITED'S APPROACH TO CORPORATE GOVERNANCE

Insurance Australia Group Limited (IAG, the Group, or the Company) is committed to attaining the highest level of corporate governance to help ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, IAG promotes a culture that rewards performance, integrity, respect and a considered sense of urgency.

The regulatory environments in which IAG conducts its businesses continue to have a major influence on the Group's corporate governance practices. Sound regulatory regimes are required to assist with the stability and sustainability of the general insurance sector in the countries in which IAG operates or intends to operate.

IAG believes that active engagement with governments, regulators and industry and professional groups helps ensure that the interests of IAG and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, the general insurance regulatory and prudential regimes and insurance industry practices. In this context, IAG strives for regulation that enhances rather than stifles competition, protects consumers, encourages efficiency and promotes and sustains public confidence in general insurers and their products.

IAG is a member of The Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable), which released a White Paper in June 2013 that details a more sustainable and comprehensive approach to managing natural disasters that could ultimately save lives, reduce damage to property and vital national infrastructure and free taxpayer money to spend on essential public services.

In July 2014, the Roundtable released a report highlighting that the Australian Government could save up to $15 billion by 2050, if it invested in natural disaster mitigation and created a national platform to share critical information about catastrophes.

Both the White Paper and the report on creating a national platform can be found on the IAG website at www.iag.com.au/sustainable.

Roundtable member organisations - Australian Red Cross, IAG, Investa Property Group, Munich Re, Optus and Westpac - have come together to champion safer and more resilient communities. Each organisation plays a crucial role in either community planning or disaster recovery and believes there is an opportunity to develop a national, long term approach to managing natural disasters through a co-ordinated resilience response that focuses on prevention.

IAG actively participates in the debate to improve Australia’s corporate governance regime, making submissions to Federal and State government committees, reviews and inquiries, and regulators in relation to new legislation, particularly regulation affecting the general insurance industry. As part of IAG’s commitment to open and transparent communication, all Australian public government submissions are available in the News Centre on IAG's website at www.iag.com.au. IAG has also contributed to changes to the New Zealand regulatory and legislative framework.

IAG representatives participate in forums, working parties and committees of domestic and overseas insurance industry associations, as well as accounting, actuarial and legal professional bodies, to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices that particularly apply to the general insurance industry. Consistent with this and our purpose, IAG became a founding signatory to the United Nations Principles for Sustainable Insurance (UN PSI) in June 2012, and IAG’s Chief Transformation Officer, Leona Murphy is Co-Chair of the UN PSI Board.

The key corporate governance practices followed by IAG and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place at IAG. Copies of IAG’s Board and Board Committee Charters and key corporate governance policies are on IAG’s website at www.iag.com.au/about/governance.

For the financial year ended 30 June 2014, IAG has complied with the Australian Securities Exchange Corporate Governance Council (ASXCGC) Principles and Recommendations (2nd edition). IAG has been an early adopter of the ASXCGC Principles and Recommendations (3rd edition) and is compliant from 19 August 2014.

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 THE BOARD

The Board is responsible for protecting the interests of policyholders and to shareholders for the performance, operation and affairs of IAG. The Board’s principal roles are to provide leadership and to govern, rather than manage, IAG. The Board represents and serves the interests of the shareholders, collectively overseeing and appraising strategies, policies and performance of IAG.

The Board is responsible for oversight of IAG, including:
- driving and monitoring the strategic direction of IAG and approving Group strategies;
- approving significant corporate initiatives including major acquisitions, divestments and capital management transactions;
- setting IAG's risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the election, re-election or removal of Non-Executive Directors;
- appointing the Chairman, evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Non-Executive Directors;
- the integrity of IAG's accounting and reporting systems, including the external audit process;
- review and approval of IAG's remuneration policies and framework;
- monitoring management's performance and the exercise of the Board's delegated authority;
- evaluating regularly and, if necessary, replacing the Chief Executive Officer (CEO);
- reviewing CEO, Chief Financial Officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, workplace health & safety, social and environmental responsibility) are adhered to at all times.

Find out more about the Board's responsibilities in the Board Charter on IAG's website at www.iag.com.au/about/governance.

THE CEO

The Board has delegated responsibility for the overall management and profit performance of IAG, including all day-to-day operations and administration, to the CEO, who is responsible for:
- the efficient and effective operation of IAG;
- fostering a culture of performance, integrity, respect and a considered sense of urgency;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management and internal controls framework;
- ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision making by the Board; and
- ensuring all material matters affecting IAG are brought to the Board's attention.

The CEO manages IAG in accordance with the policies, budget, corporate plan, strategies and risk appetite approved by the Board, and has the power to manage IAG, subject to the limits set out in the Charter of CEO Delegated Authority Limits attached to the Board Charter which is available at www.iag.com.au/about/governance.

1.2 APPOINTMENT OF DIRECTORS

The Board assesses the skills required to discharge competently its duties, having regard to IAG's performance, financial position and strategic direction, including the specific knowledge, skills and experience that the Board determines one or more of the Non-Executive Directors must possess.

The Board assesses candidates for appointment to the Board, either when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. Particular attention is given to the mix of skills, experience, diversity and expertise of existing Directors and how the candidate's competencies will complement and balance these qualities. All new candidates for Board positions undergo IAG's Fit & Proper assessment before being appointed to the Board. Any Director appointed during the year to fill a casual vacancy or as an addition to the existing Directors must stand for election at the next annual general meeting (AGM).

The notice of AGM includes the appointment date and biographical details, including the relevant qualifications and experience and details of any other directorships held, of any new Non-Executive Directors and Non-Executive Directors seeking re-election. The Board advises shareholders of whether it supports the election or re-election of each Non-Executive Director by including a statement in the notice of AGM.

1.3 APPOINTMENT TERMS

Formal appointment letters have been issued to and signed by each Non-Executive Director, including the Chairman, to assist Non-Executive Directors in understanding the role of the Board and the corporate governance principles and practices it has adopted. The letters formally document the basis of each Non-Executive Director's appointment including:
- the role of the Board and of Non-Executive Directors;
- corporate governance principles followed by IAG;
- the Chairman and the majority of the Non-Executive Directors are independent of the management of IAG;
- the right of Non-Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with discharging their duties efficiently;
- the right of access to management and IAG records;
- the indemnity and insurance arrangements available;
- the measures used, and the processes to be applied, by the Board to assess the individual performance of Non-Executive Directors, details of which are set out in section 1.6 below;
- the term of appointment and remuneration including superannuation rights;
- the circumstances that would cause a Non-Executive Director's position to become vacant;
- the confidentiality of Board papers and presentations to the Board; and
- the requirement that Non-Executive Directors abide by IAG's Code of Ethics and comply with its Continuous Disclosure and Security Trading Policies.

Employment agreements for the CEO and Executive team are for unlimited terms but may be terminated by written notice by either party. Details of these employment agreements are outlined in the Remuneration Report.

1.4 COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring Board and Board Committee procedures are complied with and also providing advice and counsel to the Board in relation to the Company's constitution, corporate governance and other matters.

The Company Secretary is also responsible for the timely dispatch of Board and Board Committee papers and the accurate recording of business discussed at the Board and Board Committee meetings in the minutes.

The Company Secretary also assists in the induction and ongoing professional development of Directors. The qualifications and experience of IAG's Company Secretary are set out in the Directors' Report.

All Directors have access to the Company Secretary and the appointment and removal of the Company Secretary is decided by the Board.

1.5 DIVERSITY

Diversity is a key aspect of IAG's strategy. IAG's diversity ambition is to respect and value the different experiences of its people and harness the opportunity and business benefits that diverse ideas and perspectives bring to IAG and its stakeholders.

Diverse thinking is key to create a culture of inclusion, ultimately increasing innovation and IAG's ability to service its customers and improve its business performance. Our approach is supported by an ongoing focus on diversity demographics such as age, ethnicity and gender. IAG's diversity policy statement can be found on IAG's website at www.iag.com.au/about/governance/codes.shtml.

Diversity activity

During the financial year, IAG took further steps towards fulfilling its diversity ambition, including:

- launching divisional Diversity and Inclusion Action Groups, designed to support IAG's focus areas of gender, age and ethnicity while targeting initiatives that most support the needs of each division in IAG;
- continuing IAG's family support program to provide support for people caring for children or the elderly;
- partnering with the University of Sydney in an Australian Research Council project exploring the management of age;
- providing personal accident insurance for employees aged 65 years and over, not covered by workers' compensation;
- piloting an Experience Matters program across the CGU and NZI businesses, to provide mature workforce transition planning support for employees aged 50 years and over;
- increasing IAG leaders' awareness of and commitment to creating a diverse and inclusive workplace, by including awareness of unconscious bias and diversity of thought modules in senior leader programs;
- holding flexible work forums for managers and employees looking to overcome barriers to implementing flexible work practices and identify areas of opportunity;
- continuing to provide one of the most generous and accessible parental leave programs in the financial services industry, including 14-weeks paid parental leave and an additional six week welcome back lump sum payment to Australian-based employees who are primary carers returning to work after having a child;
- continuing to hold a series of Inspiring Women Lunches, providing an opportunity for all employees to network; and
- in December 2013, renewing its commitment to support indigenous communities, with the launch of the 500th Reconciliation Action Plan (RAP) approved by Reconciliation Australia. IAG's RAP is also the first signed by a general insurance company. More information on the RAP and IAG's other social commitments and activities are found in the IAG 2014 Annual Review.

The IAG Diversity and Inclusion Action Group includes senior representatives from each of the key businesses and its progress is actively monitored by the People and Remuneration Committee (PARC).

Diversity targets

IAG has publicly committed to a target of increasing the number of women in senior management positions to 33% by end of the 2015 financial year. Management is provided with quarterly diversity scorecards to track and monitor target progress.

A summary of the percentage of women in IAG's workforce is provided below:

DIVERSITY OBJECTIVES	**ACTUAL 2014***	ACTUAL 2013*
Women in workforce	**59 %**	60 %
Board positions	**33 %**	25 %
Executive positions	**25 %**	29 %
Senior management positions	**32 %**	29 %

* These figures cover the workforce in Australia, New Zealand and Asia for the current year and Australia and New Zealand only in the prior year, with both excluding employees of the Wesfarmers insurance underwriting business.

The role of senior management positions at IAG is generally identified as the internal HR position code CEO-3 and above, however there are exceptions to this rule.

1.6 MEASURING THE PERFORMANCE OF NON-EXECUTIVE DIRECTORS

The Board conducts a formal review of its performance, composition, size and succession planning at least every three years with assistance from external experts. A formal review of the Board and each Non-Executive Director (including the Chairman) was conducted during the year, with assistance and input from an independent board performance expert. The review process involved the completion of questionnaires by Non-Executive Directors and Group Executives; interviews with the independent expert; the collation of results; and discussion with individual Non-Executive Directors and the Board as a whole led by the Chairman.

Each Non-Executive Director's performance is subject to annual evaluation by the Chairman, by discussion between the Chairman and the Director.

Measures of a Non-Executive Director's performance include:

- contribution to Board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- input regarding regulatory, industry and social developments surrounding the business; and
- in the case of the Chairman's performance, fulfilment of the additional role as Chairman.

Individual Non-Executive Directors also evaluate the Chairman’s performance annually. The Boards and Committees of key operating subsidiaries also regularly review their own performance.

1.7 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES

Financial and non-financial goals are set through the completion of an individual balanced scorecard for each Group Executive in conjunction with the CEO at the commencement of each financial year. The goals are stretch goals and are designed to encourage Group Executives to strive for exceptional performance while ensuring IAG’s long term financial soundness. Achievement against these goals is the basis for assessing an individual Group Executive’s performance. The methods of assessment have been selected so that performance can be objectively measured and verified. At the end of each financial year the CEO completes a formal review of each Group Executive’s performance against the balanced scorecard goals set at the commencement of the year. These assessments are the basis for determining any short term incentive payments and for allocating long term incentives to Group Executives; they are reviewed by the PARC and approved by the Board.

Financial and non-financial goals and the performance of the CEO are determined and assessed by the Board using the same approach. Further detail on the CEO’s and Group Executives’ short and long term incentives is set out in the Remuneration Report.

Newly appointed Group Executives have access to an orientation program which includes meetings with other members of the Group Executive team and select senior managers to explain the details of IAG’s operations, financial position, strategies and risk management framework.

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

2.1 NOMINATION COMMITTEE

On 1 July 2014 the Nomination Committee (NC) was established and comprises Non-Executive Directors Brian Schwartz (Chairman), Yasmin Allen, and Philip Twyman. All members of the NC have the skills and experience necessary to fulfil this role as shown in their biographies within the Directors' Report.

Prior to the establishment of the NC, the Board constituted the committee and had responsibility for the appointment of new Directors and the re-election of existing Directors.

The role of the NC is to support and advise the Board in fulfilling its statutory and fiduciary responsibilities by reviewing and recommending future Board candidates.

The NC assesses candidates and recommends to the Board the appointment, either when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. The Board has adopted a framework for effective Director selection and Board succession to help ensure that the Board’s skills, competencies and knowledge match IAG’s strategic objectives. Some key tenets of the framework are:

- determining the skills, competencies, behaviours and experience required for an effective Board and the nature and measurement of these competencies;
- the Board should demonstrate diversity in age, personality, gender, work and life experience and comprise people who think differently and have different backgrounds; and
- the adoption of a formal approach to Director selection and a systematic and strategic approach for Board succession.

As the NC was formed on 1 July 2014 there were no meetings held in the year ended 30 June 2014. The NC Charter, which provides details of the NC’s responsibilities, is available on IAG’s website at www.iag.com.au/about/governance.

2.2 BOARD SKILLS

The Board currently comprises eight independent Non-Executive Directors, and Executive Director, Mr Michael Wilkins, IAG's Managing Director and CEO.

The Board's policy is to help ensure that the Board comprises Directors who collectively have the relevant experience, knowledge, diversity and skills required for IAG. This takes into account IAG's current size, market position, complexity and strategic focus. In reviewing its composition, skills and requirements for Director succession, the Board is also mindful of the corporate governance practices and requirements for Directors.

A review of Board skills was undertaken in August 2013 and during 2014, and the collective skills of the current Board are in the areas of, but not limited to:

- risk and finance;
- asset and investment management;
- legal;
- business development;
- strategy;
- international experience;
- Asia/emerging markets;
- business/commercial acumen;
- general management;
- experienced CEO (listed company);
- experienced Board/Committee chairperson (listed company);
- marketing and customers;
- strategic HR; and
- strategic IT.

2.3 BOARD OF DIRECTORS

Directors are expected to continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of IAG's shareholders.

The Board has a tenure policy for Non-Executive Directors to help ensure the Board comprises Directors who collectively have the relevant experience and skills required and assist in maintaining the independence of the Board. The policy, among other things, provides a standard tenure for a Non-Executive Director of up to 10 years, although the Board has the discretion to invite Non-Executive Directors to stand for an additional term which may take their total tenure beyond 10 years. Details of the current Non-Executive Directors' tenure are shown below:

INDEPENDENT NON-EXECUTIVE DIRECTORS	TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)
Brian Schwartz (Chairman)	9 years and 7 months
Yasmin Allen	9 years and 9 months
Hugh Fletcher	6 years and 11 months
Philip Twyman	6 years and 1 month
Peter Bush	3 years and 6 months
Alison Deans	1 year and 7 months
Raymond Lim	1 year and 7 months
Nora Scheinkestel	1 year and 2 months

The names of Directors in office at the date of this report, their year of appointment, experience, expertise and biographical details are set out in the Directors' Report.

Potential conflicts of interests

Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose his or her interest and abstain from voting. Directors with potential conflicts do not serve on any Board Committees that are appointed to oversee the implementation of transactions or arrangements with which the Directors' interests may conflict.

2.4 DIRECTOR INDEPENDENCE

The Board has determined that it must comprise a majority of independent Non-Executive Directors and that the Chairman must be an independent Non-Executive Director. The Non-Executive Directors are free of any business or other relationship that could materially interfere with the independent exercise of their judgement. All current Non-Executive Directors have confirmed their continued independence.

The Board will determine whether each Non-Executive Director is independent, using the principles outlined in its Charter. Find out more about this at www.iag.com.au/about/governance.

2.5 THE CHAIRMAN

The Chairman is an independent Non-Executive Director and is responsible for ensuring the Board fulfils its responsibilities to IAG and stakeholders. The Chairman provides leadership to the Board and promotes constructive and respectful relations between Directors and between the Board and management. The Chairman presides at Board and general meetings of IAG.

2.6 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING

IAG encourages continuing professional education for each of its Directors. All Directors are expected to remain up-to-date in relation to issues affecting IAG, the general insurance industry and their duties as Directors. A letter of appointment notes the right of Non-Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with the efficient discharging of their duties.

New Non-Executive Directors have access to an induction program to introduce the Group Executives and the detail of IAG's businesses. Induction includes individual meetings with the CEO, Group Executives and senior management.

Workshops are conducted, as required, to further Non-Executive Directors' education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to Group Executives and the external auditor and are encouraged to meet with these Group Executives to further their knowledge and understanding of the organisation.

Executive Directors appointed to subsidiary and associated company boards are offered and encouraged to undertake training to help ensure they can continue to effectively and competently perform their roles as Executive Directors.

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

IAG takes ethical and responsible decision making very seriously. It expects its employees and Directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:

- in accordance with all laws and regulations of the countries in which IAG operates; and
- consistent with the Group's ethical principles as set out in IAG's Code of Ethics (the Code) and the IAG policies and standards that relate directly to their duties.

The Code has been developed to provide all Group officers, employees and contractors with a framework to make good, informed business decisions and to act on them with integrity. The Code sets out the principles to guide the behaviours of every officer, employee and contractor in IAG. This means that when IAG's stakeholders interact with IAG, they should feel assured that IAG will act in a responsible, ethical, transparent and honest way, wherever IAG operates.

The Code applies to all Non-Executive Directors, Group officers, employees and contractors for all entities where IAG has majority ownership or which are otherwise to be considered IAG subsidiaries.

In some regions the Code is also supported by a Code of Conduct, which provides more specific guidance for operating in the local legal and regulatory environments.

Find out more about the IAG Code of Ethics, Codes of Conduct for Australia and New Zealand and The Way We Choose To Do Business on IAG's website at www.iag.com.au/about/governance.

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT COMMITTEE

In February 2014, in line with Australian Prudential Regulatory Authority (APRA) requirements, the Audit, Risk Management and Compliance Committee (ARMCC) was replaced by the Audit Committee (AC) and the Risk Committee (RC).

The AC comprises five Non-Executive Directors: Nora Scheinkestel (Chairman), Yasmin Allen, Alison Deans, Hugh Fletcher and Philip Twyman. All members of the AC have financial management experience as shown in their biographies in the Directors' Report.

The main role of the AC is to assist the Board in fulfilling its statutory and fiduciary responsibilities by monitoring:

- the integrity of IAG and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
- the provision of high quality financial and non-financial information to Directors and management that reflects a true and fair view of the Company performance and can be relied on by them to make informed judgements;
- tax and financial risks; and
- that the independence of the Auditor, Group General Manager Internal Audit, Group Actuary and the Global External Peer Review Actuary is safeguarded.

The AC will provide prior endorsement to the Board on the appointment, reappointment and rotation of the audit engagement partner, removal and remuneration of the Auditor and will assess total fees paid for all non-auditor services provided by the Auditor.

The AC is also empowered as the AC of IAG's insurance subsidiaries, except for Insurance Manufacturers of Australia Pty Limited and those entities which have established their own ACs. In addition, the AC acts as the Audit Committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

The AC (including the previous ARMCC) met five times during the reporting period and member attendance at each meeting is shown in the Directors' Report.

The AC Charter, which provides details of the committee's responsibilities, is available on IAG's website at www.iag.com.au/about/governance.

4.2 ASSURANCES
The Board has received assurance from the CEO and CFO that the annual declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

4.3 EXTERNAL AUDITOR
The external Auditor attends the AGM and is available to answer shareholders' questions received prior to the AGM and asked at the AGM, concerning the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted and auditor independence.

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE
IAG's Continuous Disclosure Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside information.

The Continuous Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information. The IAG Continuous Disclosure Policy is available online at www.iag.com.au/about/governance.

IAG is committed to timely, factual and balanced disclosure to help ensure investors are informed of material developments for the Group. Care is taken to help ensure announcements do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of information when making investment decisions.

All announcements are subject to a minimum of two sign-off reviews at senior levels within IAG before release to the ASX. The CEO or CFO jointly with the Chairman or any other Director must jointly approve announcements of particular significance where time does not permit a full Board to be convened. All IAG announcements to the ASX are available online at www.iag.com.au.

Policies have been designed and established to ensure compliance with the ASX Listing Rules' disclosure requirements and to help ensure accountability at a senior Executive level for that compliance. In accordance with its Continuous Disclosure Policy, IAG is committed to ensuring all investors have access to information on IAG's financial performance. IAG posts on its website all investor and media material released to the ASX, including:
- annual and interim reports;
- investor and media releases and presentations of half year and full year results;
- webcasts of CEO and CFO presentations at half year and full year results announcements;
- notices of general meetings and explanatory material;
- the Chairman's and CEO's addresses to the AGM;
- investor and media releases and presentations regarding divestments and acquisitions;
- investor and media presentations given at investor strategy sessions and other one-off events; and
- all other information released to the market.

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS
6.1 INFORMATION AND GOVERNANCE
IAG maintains a comprehensive website at www.iag.com.au providing shareholders with information about IAG, including links to the Corporate Governance policies adopted by IAG. The website also provides links to the biographies of the Board members and the Group Executives.

IAG also maintains a separate Shareholder Centre page on its website to provide shareholders with links to annual and interim reports, a key events calendar, share price history, dividend payments made on IAG ordinary and preference shares by year and links to IAG public announcements. Shareholders are also able to access details of their holdings of IAG securities.

These web sites are actively promoted to all shareholders on dividend payment statements and in AGM materials.

6.2 INVESTOR RELATIONS PROGRAM
Shareholders and investors can raise any issues or concerns at any time by contacting the Company by email at investor.relations@iag.com.au. Alternatively shareholders and investors can write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000, Australia.

Shareholders are provided with a Question Form with their AGM documentation. Shareholders who are unable to attend the AGM are encouraged to ask questions as they submit their voting intentions either online or when mailing back the voting form. Questions received from shareholders are collated and, during the course of the AGM, the Chairman or CEO responds where possible to the most frequently asked questions.

6.3 PARTICIPATION AT GENERAL MEETINGS

Shareholders are encouraged to attend AGMs and ask questions of the Chairman and the Board. IAG is mindful of the need to adopt best practice in the drafting of notices for general meetings and other communications to help ensure that they are honest, accurate, informative and not misleading. All AGM material can be found on IAG's website at www.iag.com.au/shareholder/agm.

IAG shareholders and authorised intermediaries such as custodians are offered online proxy and direct voting to facilitate lodgement of their votes on resolutions put to general meetings. The AGM is also webcast for viewing by shareholders and other interested parties on IAG's website at www.iag.com.au/shareholder/agm.

6.4 ELECTRONIC COMMUNICATIONS

IAG actively promotes to shareholders the benefits of using electronic communications. As at 31 July 2014, 21.8% of shareholders had registered their email address. Shareholders who use this service are advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed via the internet.

IAG also has an email alert system for investors, beneficial owners and other interested parties who may not be shareholders to receive advice of important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

PRINCIPLE 7. RECOGNISE AND MANAGE RISK

In February 2014, in line with APRA requirements, the Audit, Risk Management and Compliance Committee (ARMCC) was replaced by the Audit Committee (AC) and the Risk Committee (RC).

Managing risk is central to the sustainability of IAG's business and the delivery of shareholder value. IAG's risk management framework is a core part of its governance structure and includes internal policies, key management processes and culture.

In October 2013, IAG appointed a Group Chief Risk Officer (CRO) reporting to the CEO. The CRO oversees risk activities across IAG and is supported by a governance and risk function and divisional risk and compliance functions. Further details on risk management at IAG are included in the notes to the Financial Statements.

7.1 RISK COMMITTEE

The RC comprises five Non-Executive Directors: Philip Twyman (Chairman), Yasmin Allen, Alison Deans, Hugh Fletcher and Nora Scheinkestel. All members of the RC have relevant experience as shown in their biographies in the Directors' Report.

The RC is supported in its oversight of risk by a series of divisional Executive Risk and Governance forums.

The RC assists the Board to discharge its responsibility to exercise due care, skill and diligence regarding:

- effective management of material risks to which IAG is exposed and oversight of risk management and control systems for adequacy and effective function;
- monitoring IAG's compliance with the Group Risk Management Strategy (Group RMS), Group Reinsurance Risk Management Strategy (Group REMS) and other governance and risk related Group Policies identified in the Group RMS;
- effective operation and management of compliance systems and to help ensure compliance with the requirements of applicable laws, regulations, industry codes, listing authorities' rules and organisational policies and standards;
- oversight of the Group's risk management and governance frameworks; and
- safeguarding the independence of the CRO, the Group General Manager Risk and Governance and Chief Actuary.

The RC (including the previous ARMCC) met five times during the reporting period and member attendance at each meeting can be found in the Directors' Report. The RC Charter, which provides details of the RC's responsibilities, is available at www.iag.com.au/about/governance.

7.2 REVIEW RISK MANAGEMENT FRAMEWORK

The RC assists the Board in discharging its risk management responsibilities and has oversight of the Group's risk management and governance frameworks and material risks to which the Group is exposed. The RC reviews and endorses IAG's risk management policy and is satisfied that the governance frameworks in place are effective, remain appropriate and are operationally sound. The Board receives information on risk matters of particular significance and regular updates from the Chairman of the RC.

IAG's Group Risk and Governance function provides regular reports to the RC on the operation of IAG's risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. Divisional risk and compliance functions also report regularly to divisional committees.

The RC considers IAG's enterprise risk profile, risk appetite and core risk documents on an annual basis. In addition, business Executives are required to attend and report to the RC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

At an Executive level, risk management is delegated to the Group CEO who is assisted in discharging risk management responsibilities by the IAG Executive Risk Committee (ERCO) and the Asset and Liability Committee (ALCO). ERCO operates in accordance with its Charter and with delegations from the Group CEO, who is ERCO's Chairman. ERCO oversees the development and implementation of IAG's risk management framework and governance arrangements in respect of operational, insurance and strategic risk. ERCO comprises the divisional CEOs, the Group CRO and the Group General Manager Risk and Governance. ALCO oversees financial risks (such as reinsurance and capital) and some aspects of insurance risk. ALCO operates in accordance with its charter and comprises the Group CEO and Group CFO and Group General Managers involved in the management of financial related risks.

IAG operates a "Three Lines of Defence" approach to risk management. The First line (risk owners) own their risks and their management. The Second line (risk advisers) is typically the risk and associated functions and the Third line is the independent audit functions.

As risk owners all Group Executives are responsible for:

- overseeing implementation of Board-approved policies;
- overseeing the ongoing implementation of, and compliance with, the Group's RMS, REMS, business insurance licences, internal control system and monitoring IAG's risks;
- authorising capital allocation to major projects within financial delegation limits approved by the CEO and Board;
- conducting periodic financial performance reviews of the business divisions;
- reviewing performance in the areas of health, safety, environment and community;
- reviewing the effectiveness of governance practices established at the business division level;
- reviewing human resource performance and reward strategies;
- promoting and reinforcing IAG's risk management culture;
- reviewing corporate strategies and the performance of IAG and its business divisions compared to budgets and corporate plans;
- formulating recommendations to the Board concerning issues related to capital management and risk management, including reinsurance, credit risk and asset allocation;
- conducting periodic financial performance reviews of IAG's businesses; and
- reviewing the effectiveness of governance practices established at the IAG level.

7.3 INTERNAL AUDIT FUNCTION

The Board has established the Group Internal Audit function as a key component of IAG's governance framework. The Group Internal Audit function's objective is to evaluate and improve the effectiveness of internal controls, governance processes and overall risk management, via its independent and objective review program and to:

- provide assurance to the Board that IAG's financial and operational controls designed to manage the Group's risks and regulatory obligations, and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- assist management in improving IAG's business performance.

The Group General Manager, Internal Audit reports functionally to the AC and administratively to the Group CRO, with direct access to the CEO and the AC.

7.4 ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

IAG is the only Australian-based general insurer that is a signatory to the Principles for Sustainable Insurance (PSI) launched in June 2012 as part of the United Nations Environment Program Finance Initiative (UNEPFI). The PSI is a set of voluntary global principles to guide insurers to:

- embed in their decision-making relevant environmental, social and governance issues;
- work together with clients and business partners to raise awareness of these issues;
- manage risk and develop solutions; and
- work together with governments, regulators and other key stakeholders to promote widespread action across society.

Part of IAG's commitment to implementing the PSI principles is ensuring that IAG has governance systems - structures, values, principles, frameworks and policies - to define its decision-making context and the boundaries for managing operations sustainably. Responsibility for adhering to these systems sits at every level of the organisation. IAG's Board takes overarching responsibility for monitoring the development, implementation and reporting of IAG's approach to the proactive management of risk that drives sustainable outcomes and how effectively IAG responds to stakeholders.

As well as actively managing sustainability risks internally, IAG believes it also has a responsibility to share its knowledge about risk to make communities more resilient and help people live safer lives. It does this by promoting better understanding and reduction of risks on the road, at home, in business and in the natural environment. IAG's work in the natural environment risk area includes formation of the Roundtable with the CEOs of the Australian Red Cross, IAG, Investa Property Group, Munich Re, Optus and Westpac in December 2012. The Roundtable was created because each member CEO believes that having resilient communities that can adapt to extreme weather events is of national importance.

More information about how IAG shares its risk management expertise and details of other sustainability activities, including how IAG defines and addresses the issues it faces, can be found in the 2014 Annual Review.

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

8.1 PEOPLE AND REMUNERATION COMMITTEE

The four members of the People and Remuneration Committee (PARC) are Yasmin Allen (Chairman), Peter Bush, Raymond Lim and Brian Schwartz.

The PARC assists the Board in fulfilling its statutory and fiduciary responsibilities by:

- monitoring the development and implementation of Group and divisional people and culture strategies;
- monitoring the development and implementation of IAG's workplace, health and safety framework and strategies;
- reviewing succession plans for Executives that report to the CEO and other senior Executives;
- providing assurance to the Board relating to the effectiveness, integrity and compliance with IAG's remuneration policies and practices;
- assessing whether the Group Remuneration Policy is effective and complies with regulatory requirements on remuneration including those specified in the Corporations Act and APRA's prudential standards;
- monitoring the appropriateness and relevance of the Group Reward Strategy and its approach to deliver the strategic goals of IAG; and
- overseeing Board composition of designated IAG subsidiary and associated companies.

The PARC is also empowered as the remuneration committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate remuneration committee.

The PARC met four times during the reporting period and member attendance at each meeting is shown in the Directors' Report.

Find out more about the PARC Charter at www.iag.com.au/about/governance.

8.2 GROUP REMUNERATION POLICY

Details of IAG's remuneration policies for its Non-Executive Directors and senior Executives are disclosed in the Remuneration Report. The Remuneration Report highlights the balance between fixed pay, short term incentive and long term incentive, and includes details of the remuneration paid and the relationship to IAG's performance. IAG's minimum shareholding requirement policy for senior Executives and Non-Executive Directors and 'clawback' policy are also outlined.

8.3 EQUITY BASED REMUNERATION

IAG Non-Executive Directors, the CEO and Group Executives are prohibited from entering into, varying or terminating transactions or arrangements which operate to limit the economic risk of their unvested entitlements to IAG securities (such as Executive Performance Rights, Performance Award Rights and Deferred Award Rights) and vested IAG securities which form part of their mandatory holding of IAG ordinary shares. Details of IAG's equity based remuneration policy for the CEO and Group Executives are shown in the Remuneration Report.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2014 and the Auditor's Report thereon.

The following terminology is used throughout the financial report:

- IAG, Parent or Company - Insurance Australia Group Limited; and
- Group or Consolidated - the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

CHAIRMAN

BRIAN (BM) SCHWARTZ AM

FCA, FAICD, age 61 - Chairman and Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Brian was appointed a Director of IAG in January 2005 and became Chairman in August 2010. He is a member and former Chairman of IAG's People and Remuneration Committee, Chairman of IAG's Nomination Committee and Chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV.

OTHER BUSINESS AND MARKET EXPERIENCE

Brian is the Deputy Chairman of Westfield Corporation, Deputy Chairman of Scentre Group and the Deputy Chairman of the Board of Football Federation Australia Limited.

He was the Chief Executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously he was with Ernst & Young Australia from 1979 to 2004, becoming its Chief Executive in 1998. He was a member of Ernst & Young's Global Board and Managing Partner of the Oceania area responsible for the firm’s operations in Australia, New Zealand, Indonesia, the Philippines, Vietnam and Fiji.

Brian was appointed a member of the Order of Australia in 2004 for his services to business and the community. He was previously a member of the Federal Government's Australian Multicultural Advisory Council and in 2001 he was named Leading CEO for the Advancement of Women by the Equal Opportunity for Women in the Workplace Agency (now the Workplace Gender Equality Agency).

Directorships of other listed companies held in the past three years:

- Westfield Group, including Westfield Management Limited (which acts as the responsible entity of Carindale Property Trust), since 6 May 2009;
- IAG Finance (New Zealand) Limited (a part of the Group), since 26 August 2010;
- Scentre Group, since 20 June 2014; and
- Brambles Limited (2009-2014).

MANAGING DIRECTOR

MICHAEL (MJ) WILKINS

BCom, MBA, DLi, FCA, FAICD, age 57 - Managing Director and Chief Executive Officer

INSURANCE INDUSTRY EXPERIENCE

Michael was appointed Managing Director and Chief Executive Officer of IAG in May 2008.

He has more than 30 years experience in the insurance and financial services sector and is a member of the Australian Government's Financial Sector Advisory Council.

Michael was formerly the Managing Director of Promina Group Limited (from 1999 to 2007) and Managing Director of Tyndall Australia Limited (from 1994 to 1999). He is a former Director and President of the Insurance Council of Australia and a former Director of the Investment and Financial Services Association (now the Financial Services Council).

OTHER BUSINESS AND MARKET EXPERIENCE

In May 2014, Michael was appointed as a Director of The Geneva Association, the leading international insurance think tank for strategically important insurance and risk management issues.

Michael is a Non-Executive Director of Maple-Brown Abbott Limited and a former Non-Executive Director of Alinta Limited.

Directorships of other listed companies held in the past three years:

- IAG Finance (New Zealand) Limited (a part of the Group), since 28 May 2008.

OTHER DIRECTORS

YASMIN (YA) ALLEN

BCom, FAICD, age 50 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Yasmin Allen was appointed as a Director of IAG in November 2004. She is Chairman of the IAG People and Remuneration Committee and a member of IAG's Audit Committee, Risk Committee and Nomination Committee. Yasmin served six years on the Board of Export Finance and Insurance Corporation.

OTHER BUSINESS AND MARKET EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a Director of Cochlear Limited and Chairman of its Audit Committee, Chairman of Macquarie Specialised Asset Management, a National Director of the Australian Institute of Company Directors, a Director of the National Portrait Gallery and a member of the Salvation Army Advisory Board. Previous Non-Executive Director roles include those with Export Finance and Insurance Corporation and Film Australia.

Yasmin was formerly a Vice President at Deutsche Bank AG, a Director at ANZ Investment Bank in Australia and an Associate Director at James Capel UK Ltd (HSBC Group).

Directorships of other listed companies held in the past three years:

- Cochlear Limited, since 2 August 2010.

PETER (PH) BUSH

BA, FAMI, age 62 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Peter Bush was appointed as a Director of IAG in December 2010. He is a member of IAG's People and Remuneration Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Peter has extensive experience in marketing, brands and consumer behaviour gained through a career spanning more than 30 years in the fast moving consumer goods and retail industries. He was McDonald's Australia Limited's Managing Director & Chief Executive Officer and President for the Pacific, Middle East and Africa (2005-2010) and Chief Operating Officer (2002-2005).

In several of his roles Peter was responsible for Asian operations and he has direct experience in developing business in Indonesia, Japan and China. Previously he held senior roles with Arnott's Biscuits Limited, Pioneer International Limited (Ampol/Caltex), Samuel Taylor (Reckitt & Coleman plc), and Johnson & Johnson Australia, and was Chief Executive Officer of AGB McNair and Schwarzkopf Australia & New Zealand.

Peter is Executive Chairman of Pacific Brands Limited and Chairman of the Mantra Group, Australia's second largest hotel chain that listed in June 2014. He previously served on the Boards of McDonald's Australia Limited, Lion Nathan Limited, Miranda Wines Pty Limited (now McGuigan Wines), Frucor Beverages Group Limited (now Danone) and Nine Entertainment Holdings Pty Ltd.

Directorships of other listed companies held in the past three years:

- Pacific Brands Limited, since 3 August 2010; and
- Mantra Group Limited, since 27 February 2014 (listed June 2014).

ALISON (AC) DEANS

BA, MBA, GAICD, age 46 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Alison was appointed as a Director of IAG in February 2013. She is a member of IAG's Audit Committee and Risk Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Alison was formerly CEO of Netus, a technology-based investment company focused on building consumer web businesses in Australia and acquired by Fairfax in 2012. She has over 20 years experience in general management and strategy consulting roles focused on e-business and media/entertainment in Australia.

In December 2013, the Australian Government appointed Alison to a Panel of Experts conducting an independent cost benefit analysis of broadband and a review of the regulatory arrangements for the National Broadband Network.

She was appointed as an Independent Non-Executive Director of Westpac Banking Corporation in April 2014. Alison has also held Chief Executive roles at eBay Australia and New Zealand, eCorp and Hoyts Cinemas.

She is a recipient of the Centenary Medal for services to the business community.

Directorships of other listed companies held in the past three years:

- Westpac Banking Corporation, since 1 April 2014.

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 66 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Hugh was appointed as a Director of IAG in September 2007 and as a Director of IAG New Zealand Limited in July 2003. He is a member of IAG's Audit Committee and Risk Committee.

Hugh was formerly Chairman (and independent Director since December 1998) of New Zealand Insurance Limited and CGNU Australia.

OTHER BUSINESS AND MARKET EXPERIENCE

Hugh is a Non-Executive Director of Rubicon Limited and Vector Limited and a trustee of The University of Auckland Foundation.

Hugh was formerly Chief Executive Officer of Fletcher Challenge Limited, a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an Executive position in December 1997 after 28 years as an Executive, 11 of which he served as Chief Executive.

Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand, former member of the Asia Pacific Advisory Committee of the New York Stock Exchange, former Non-Executive Director of Fletcher Building Limited, and has been involved as an Executive and Non-Executive Director in many countries in Asia, including China, India, Singapore, Indonesia, Malaysia and Thailand.

Directorships of other listed companies held in the past three years:

- Rubicon Limited, since 23 March 2001;
- Vector Limited, since 25 May 2007;
- IAG Finance (New Zealand) Limited (a part of the Group), since 31 August 2008; and
- Fletcher Building Limited (2001-2012).

RAYMOND (SKR) LIM

BEcon, BA, LLM, age 55 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Raymond was appointed as a Director of IAG in February 2013. He is a member of IAG's People and Remuneration Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Raymond is Chairman of APS Asset Management and Senior Advisor to the Swire Group. He also serves on several Boards including the Government of Singapore Investment Corporation, Hong Leong Finance and Raffles Medical Group.

Raymond is a member of the Singapore Parliament (since 2001) and held various ministerial appointments in the Singapore Government including Foreign Affairs, Trade & Industry, Entrepreneurship, Finance and Transport from 2001 to 2011.

Prior to entering parliament in 2001, Raymond held various senior positions in the financial industry including as a Managing Director of Temasek Holdings, Chief Executive Officer of DBS Vickers Securities and Chief Economist of ABN AMRO Asia Securities.

He is a Rhodes Scholar and has degrees in economics and law from the universities of Adelaide, Oxford and Cambridge.

Directorships of other listed companies held in the past three years:

- Dart Energy Limited (2012-2013).

DR NORA (NL) SCHEINKESTEL

LLB (Hons), Ph.D, FAICD, age 54 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Nora was appointed as a Director of IAG in July 2013. She is Chairman of IAG's Audit Committee and a member of the Risk Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Nora is an experienced company Director having served on listed, private and public company Boards in sectors including financial services, utilities, telecommunications and mining.

Nora has extensive experience in corporate transactions including equity and debt raising, corporate restructuring and mergers and acquisitions, as well as an executive background in the development and financing of major projects in Australasia and South East Asia. She currently consults in areas such as corporate governance, strategy and finance.

Nora is an Associate Professor at the Melbourne Business School at Melbourne University, a member of the Takeovers Panel and a fellow of the Australian Institute of Company Directors. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

Directorships of other listed companies held in the past three years:

- Telstra Corporation Limited, since 12 August 2010;
- Orica Limited, since 1 August 2006;
- Pacific Brands Limited (2009-2013); and
- AMP Limited (2003-2013).

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 70 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Philip was appointed as a Director of IAG in July 2008. He is Chairman of IAG's Risk Committee and a member of IAG's Audit Committee and Nomination Committee.

Philip was formerly Group Executive Director of Aviva plc, one of the world's largest insurance groups, based in London. He has also been Chairman of Morley Fund Management and Chief Financial Officer of General Accident plc, Aviva plc and AMP Group.

While at Aviva plc and its predecessor groups between 1996 and 2004, Philip had executive responsibility for the Group's insurance operations in Asia, Australia, Europe and North America. He was also responsible for starting and nurturing new insurance businesses in China, India, Indonesia and Hong Kong. Overall, Philip has had over 20 years of both Board and Executive level general insurance experience.

Philip is on the Board of Swiss Re (Australia). He was formerly an Independent Non-Executive Director of Perpetual Limited from 2004 to 2012, Medibank Private Limited from 2007 to 2012 and Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV from April 2007 to July 2008.

OTHER BUSINESS AND MARKET EXPERIENCE

Philip is also on the Board of Tokio Marine Management (Australasia) Pty Ltd.

Directorships of other listed companies held in the past three years:

- Perpetual Limited (2004-2012).

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

CHRIS (CJ) BERTUCH

BEc, LLB, LLM

Chris Bertuch was appointed Group General Counsel & Company Secretary on 11 May 2011. Prior to joining IAG, he held the position of Group General Counsel & Company Secretary at CSR Limited. Chris joined CSR as a corporate lawyer in 1993 and prior to that was a partner in the law firm Gadens Lawyers in Sydney. He brings to IAG more than 28 years of experience in corporate, commercial and trade practices law and dispute resolution. Chris has also completed the Advanced Management Program at Harvard Business School.

MEETINGS OF DIRECTORS

The number of meetings each Director was eligible to attend and actually attended during the financial year is summarised as follows:

DIRECTOR	BOARD OF DIRECTORS		PEOPLE AND REMUNERATION COMMITTEE		AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE[b]		AUDIT COMMITTEE[b]		RISK COMMITTEE[b]		BOARD SUB COMMITTEE	
Total number of meetings held[a]		12		4		3		2		2		4
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
Brian Schwartz	**12**	**12**	**4**	**4**	-	-	-	-	-	-	**4**	**4**
Yasmin Allen	**12**	**9**	**4**	**4**	**3**	**3**	**2**	-	**2**	**1**	**2**	**1**
Peter Bush	**12**	**9**	**4**	**4**	-	-	-	-	-	-	-	-
Alison Deans	**12**	**11**	-	-	**3**	**3**	**2**	**2**	**2**	**2**	-	-
Hugh Fletcher	**12**	**12**	-	-	**3**	**3**	**2**	**2**	**2**	**2**	**2**	**1**
Raymond Lim	**12**	**11**	**4**	**4**	-	-	-	-	-	-	-	-
Dr Nora Scheinkestel	**12**	**12**	-	-	-	-	**2**	**2**	**2**	**2**	-	-
Philip Twyman	**12**	**12**	-	-	**3**	**3**	**2**	**2**	**2**	**2**	-	-
Michael Wilkins	**12**	**12**	-	-	-	-	-	-	-	-	**4**	**4**

(a) There are circumstances in which Board or committee meetings are convened at short notice, meaning that Directors may be unable to attend.

(b) The Audit, Risk Management & Compliance Committee was replaced by the Audit Committee and Risk Committee in February 2014.

On 1 July 2014 the Nomination Committee (NC) was established and comprises Non-Executive Directors Brian Schwartz (Chairman), Yasmin Allen and Philip Twyman. The role of the NC is to support and advise the Board in fulfilling its statutory and fiduciary responsibilities by reviewing and recommending future Board candidates.

PRINCIPAL ACTIVITY

The principal continuing activity of the Group is the underwriting of general insurance and related corporate services and investing activities. On 30 June 2014 the Group completed the acquisition of the insurance underwriting business of Wesfarmers Limited in Australia and New Zealand. Accordingly throughout this report the balance sheet of this business is consolidated as at 30 June 2014.

The Group reports its financial information under the following business division headings:

- Australia Direct insurance – comprises insurance products distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands as well as via a distribution relationship and underwriting joint venture with Royal Automobile Club of Victoria (RACV) Limited;
- Australia Intermediated insurance - comprises insurance products primarily sold under the CGU and Swann Insurance brands through insurance brokers, authorised representatives and distribution partners. From 30 June 2014, this includes the acquired Wesfarmers Australian insurance underwriting business which operates under the WFI and Lumley Insurance brands, as well as a 10-year distribution agreement with Coles;
- New Zealand insurance - comprises the general insurance business underwritten through subsidiaries in New Zealand. Insurance products are predominantly sold directly to customers under the State and AMI brands and through intermediaries such as brokers and agents using the NZI brand. From 30 June 2014, this includes products sold under the Lumley brand following the acquisition of the Wesfarmers insurance underwriting business. Personal and commercial products are also distributed by corporate partners, such as large financial institutions, using third party brands;
- Asia insurance - comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand and Vietnam and the share of the operating result from the investment in associates in Malaysia, India and China. The businesses offer personal and commercial insurance products through local brands; and
- Corporate and Other - comprises other activities, including corporate services, funding costs on the Group's interest bearing liabilities, inwards reinsurance from associates, investment management and investment of the shareholders' funds.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The financial year ended 30 June 2014 has been a significant year for IAG. The Group has delivered a strong financial performance, positioning it well to deliver on the next phase of the Group's development. A key milestone was the acquisition of the Wesfarmers insurance underwriting business.

There is no contribution to the Group's profit or loss after tax in the current financial year from the acquired insurance business of Wesfarmers Limited given the acquisition completed on 30 June 2014.

The Group's profit after tax for the financial year was $1,330 million (2013-$882 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $1,233 million (2013-$776 million), which was an increase of nearly 60%. This outcome was assisted by the absence of the loss of $287 million recognised in the prior financial year in respect of the discontinued United Kingdom business, which was sold in April 2013. Gross written premium (GWP) growth of 3.0% (2013-11.8%) has been recorded in the current financial year.

For the financial year to 30 June 2014, the Group's overall performance has been characterised by:

- substantially reduced input cost pressures, resulting in minimal need for premium rate increases;
- underlying volumes broadly in line with system growth in most classes;
- ongoing application of underwriting disciplines;
- improved underlying claim costs, aided by better than expected frequency in key business classes; and
- increased investment in the business, directed towards long term efficiency and customer-oriented projects.

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

The reported insurance margin of 18.3% (2013-17.2%) incorporates:

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

The Group has delivered an improved underlying insurance margin of 14.2% (2013-12.5%).

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

- net natural peril claim costs less the related allowance for the period;
- reserve releases in excess of 1% of NEP; and
- credit spread movements.

INSURANCE MARGIN	**2014** $m	**2014** %	2013 $m	2013 %
Reported insurance margin*	**1,579**	**18.3**	1,428	17.2
Net natural peril claim costs less allowance	**(87)**	**(1.0)**	(156)	(1.9)
Reserve releases in excess of 1% of NEP	**(162)**	**(1.9)**	(129)	(1.5)
Credit spread movements	**(100)**	**(1.2)**	(110)	(1.3)
Underlying insurance margin	**1,230**	**14.2**	1,033	12.5

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

Investment income on shareholders' funds was a profit of $400 million, compared to a profit of $371 million in the prior financial year. Contributory factors were:

- continued strength in equity markets in the current financial year, with the broader Australian index (S&P ASX200 Accumulation) delivering a positive return of 17.4% (2013-22.8%);
- a strong return from alternative asset categories; and
- income earned on the funds raised to finance the acquisition of the Wesfarmers insurance underwriting business, which settled on 30 June 2014. These funds were placed in high quality fixed interest and cash investments.

A. AUSTRALIA DIRECT

I. Premiums

Australia Direct's GWP was relatively flat, at $4,545 million in the year ended 30 June 2014 (2013-$4,584 million). This performance is in line with the guidance provided at the Australia Direct market briefing in April 2014. It reflects the combination of:

- reduced need to recover higher input costs, notably reinsurance, particularly in respect of the home portfolio;
- cessation of Victorian Fire Services Levy (FSL) collection from 1 July 2013 (2013-$50 million);
- slightly lower motor GWP, from a combination of volume growth and lower average rates;
- a $33 million reduction in GWP in respect of Queensland CTP, following the decision to exit that market from 1 January 2014;
- reduced ACT CTP market share, following the entry of competition from mid-July 2013; and
- continued remediation of the Retail Business Insurance (RBI) book.

II. Reinsurance expense

Reinsurance expense of $557 million in the current financial year increased compared to the prior financial year (2013-$281 million) as a result of the CTP quota share agreement from 1 July 2013. Excluding the CTP quota share effect, Australia Direct's current financial year reinsurance expense was $290 million, and of similar scale to the prior financial year.

III. Claims

The current year net claims expense of $2,654 million (2013-$2,758 million) contained:

- reserve releases of $176 million which were $71 million higher than those reported in the prior year (2013-$105 million);
- losses from natural perils (net of reinsurance) of $305 million, which was $100 million higher than the incidence in the prior year;
- short-tail claim experience which was characterised by a larger than expected decrease in frequency compared to the prior year, and modest inflation in underlying average claim costs;
- the total net claims expense in the current year included a reduction in respect of the 30% of CTP claims covered by the quota share agreement, entered into with effect from 1 July 2013; and
- an unfavourable risk free discount rate adjustment.

The loss ratio of 65.9% is similar to that of the prior financial year (2013-66.2%).

IV. Expenses

Australia Direct's reported expenses predominantly comprise underwriting costs, and totalled $757 million in the current financial year, compared to $797 million in the prior financial year. The movement in expenditure is largely explained by the net effect of:

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

The reported expense ratio improved to 18.8% (2013-19.2%).

V. Insurance profit

Australia Direct reported an insurance profit for the year ended 30 June 2014 of $908 million, compared to $822 million in the year ended 30 June 2013. This equates to a higher insurance margin of 22.5% (2013-19.7%). The higher margin compared to the prior financial year reflects the combination of:

- an improved underlying claims performance, incorporating supply chain cost initiatives and better than expected frequency;
- an easing of the pressures experienced in NSW CTP in the prior financial year, assisted by rate increases implemented in the second half of the prior financial year;
- a modestly favourable impact from the CTP quota share agreement;
- significantly higher reserve releases, of $176 million, which had a favourable margin effect of nearly 2% compared to the year ended 30 June 2013; and
- a $100 million increase in net natural peril claim costs against the prior financial year.

B. AUSTRALIA INTERMEDIATED (CGU)

I. Premiums

CGU reported modestly higher GWP of $3,058 million in the financial year ended 30 June 2014 (2013-$3,028 million).

Reported GWP growth of 1.0% in the current financial year reflects the combined effect of:

- volume growth across commercial SME and some specialty line products;
- continued growth in workers' compensation, with higher volumes in both new business and renewals;
- low single digit rate increases across most products;
- lower personal lines volumes, owing to the termination of the Telstra mobile phone insurance relationship towards the end of the 2013 calendar year (excluding this account loss, personal lines GWP was flat);
- an 11% contraction in commercial motor GWP, with action to address competitive positioning through more granular risk pricing seeing a resumption of growth by the conclusion of the current financial year;
- a continued softening of rates in the large corporate property segment, though this represented only 2% of CGU's GWP in the current financial year; and
- the cessation (from 1 July 2013) of the Victorian FSL, which in the prior year represented $54 million of GWP.

II. Reinsurance expense

CGU's current year reinsurance expense of $225 million is over 8% lower than in the previous financial year. This reflects a combination of:

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

III. Claims

The current year net claims expense was $1,491 million, compared to $1,316 million in the prior year. The movement reflects the combination of:

- reserve releases of $81 million which were over 40% lower than those reported in the prior year ($141 million);
- losses from natural perils of $142 million (net of reinsurance) for the current year which were $61 million lower than prior year levels;
- better than expected frequency;
- further improvement in underlying claims performance; and
- an unfavourable risk free discount rate adjustment.

The reported loss ratio increased to 54.1% (2013-49.8%).

IV. Expenses

Reported expenses, comprising commission and underwriting costs, totalled $962 million in the financial year ended 30 June 2014, compared to $928 million in the financial year ended 30 June 2013. The expense ratio was slightly lower at 34.9% in the current year (2013-35.1%), and on an ex-levies basis increased to 32.6% (2013-30.1%).

The increase in expenditure includes:

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

These increases have been offset by:

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

V. Insurance profit

CGU reported an insurance profit of $479 million, a slightly higher outcome than the prior financial year (2013-$470 million). This equates to an insurance margin of 17.4% (2013-17.8%).

Following several periods of claims-driven performance improvement, CGU demonstrated a sustained margin at targeted levels in the current year, with portfolio remediation now largely complete and rate increases subsiding to more typical long term levels.

The slightly lower reported margin of 17.4% (2013-17.8%) reflects the net effect of:

- a $60 million reduction in prior period reserve releases;
- an offsetting reduction in net natural peril claim cost of similar quantum;
- a marginally lower favourable credit spread movement of $35 million; and
- further improvement in the business' underlying performance, year-on-year.

VI. Fee based business

In the financial year ended 30 June 2014, in its role as agent in respect of the NSW and Victorian workers' compensation schemes, CGU generated net income from fee based operations of $9 million, compared to $19 million in the prior year.

C. NEW ZEALAND

I. Premiums

New Zealand's current year GWP of $1,846 million increased by 17.2% compared to the prior year (2013-$1,575 million). All distribution channels reported growth in the financial year ended 30 June 2014. GWP growth in the current financial year was driven by:

- rate increases in the domestic home owners' portfolio across all channels to continue to recover higher reinsurance costs and appropriately price for risk;
- a continued focus on customer and sales initiatives which contributed to improved volumes compared to the prior year; and
- a significantly favourable exchange rate effect compared to the previous financial year.

II. Reinsurance expense

Reinsurance expense of $257 million was 8.4% higher than the previous financial year (2013-$237 million). The increase reflects the net effect of:

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

III. Claims

The current year reported loss ratio was 57.2% (2013-60.1%) and the net claims expense was $892 million (2013-$774 million), which contained:

- higher net natural peril costs of $106 million (2013-$56 million);
- lower net reserve strengthening of $13 million, compared to the prior year (2013-$35 million); and
- favourable underlying claims activity predominantly driven by lower frequency.

IAG continues to play a key role in the recovery of the Canterbury region, following the major earthquakes of 2010 and 2011. As at 30 June 2014 the Group had paid over NZ$3.3 billion of claims, with around 58% of claims by number now fully settled. While the Group believes it has adopted a conservative reserving position, considerable uncertainty continues to attach to the ultimate cost of the earthquake events.

IV. Expenses

Total reported expenses of $461 million in the current financial year resulted in an expense ratio of 29.6%, a slight deterioration against the prior financial year (2013-28.8%). Within this:

- reported commission expense increased by 18.3% compared to the prior year, to $168 million, broadly reflecting the foreign exchange translation effect over the course of the year. The commission ratio of 10.8% improved slightly over the prior year experience (2013-11.0%);
- underwriting expenses of $293 million were approximately 28% higher than the prior year. This incorporated the net effect of:
  - the absence of the $9 million net benefit in the prior year from the introduction of deferred acquisition cost (DAC) accounting in AMI;
  - increased costs driven by investment in process improvement and technology initiatives;
  - expenditure associated with increased regulatory requirements; and
  - the foreign exchange translation effect over the course of the year.

V. Insurance profit

The New Zealand business produced an insurance profit of $180 million in the year to 30 June 2014, a significant increase on the prior year profit of $115 million. This equated to a reported insurance margin of 11.5% (2013-8.9%). The higher reported margin reflects the combination of:

- the improved underlying performance of the business;
- lower net reserve strengthening;
- a higher incidence of net natural peril claim costs; and
- the realisation of benefits associated with the business' continued focus on operational initiatives, including synergies from the AMI integration.

D. ASIA

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

I. Premiums

GWP from the Group's controlled entities was $317 million in the current financial year, which was broadly in line with the prior year (2013-$295 million).

The Thai business (Safety Insurance Public Company Limited) reported a modest decline in GWP of 2.4% in the current year. This reflects the combined effect of:

- the significant contraction in new vehicle sales since May 2013, after the end of the government's first-car-buyer tax incentive scheme;
- a normalisation of commercial rates following the spike experienced in the aftermath of the catastrophic flood event in the financial year ended 30 June 2012; and
- slower economic activity due to political unrest.

Following the increase in ownership of AAA Assurance Corporation (AAA Assurance), IAG has consolidated the results of AAA Assurance with effect from July 2013. In the current year, AAA Assurance recorded GWP equivalent to $29 million, representing growth of about 20%. This reflects the net impact of remediation activity offset by stronger growth in the bancassurance channel.

II. Insurance profit

The insurance profit delivered by the controlled entities for the current financial year was $23 million (2013-$26 million), which excludes allocated costs. The Thai business reported an improved insurance profit of $28 million, compared to $26 million in the prior year. AAA Assurance contributed an insurance loss of $5 million in the current financial year.

III. Share of net profit/(loss) of associates

The Group's share of associates was a profit of $22 million (2013-$19 million), excluding allocated costs. In the current financial year this includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia, SBI General Insurance Company Limited (SBI General) in India, and Bohai Property Insurance Company Ltd (Bohai Insurance) in China. AmGeneral accounts for the majority of the Group's share of net profit from associates.

AmGeneral has continued to perform strongly during the year, with the overall result boosted by a full year contribution from Kurnia, compared to nine months in the previous financial year. IAG's share of AmGeneral's profit for the year was $29 million (2013-$28 million). Modest losses were recognised from the developing businesses in India and China in the current financial year.

IV. Regional support and development costs

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 the year increased to $31 million (2013-$25 million) owing to greater capability support in driving an operational excellence strategy and enhancing risk management and governance in existing Asian businesses.

E. CORPORATE AND OTHER

Revenue has increased from $360 million in the prior year to $411 million in the financial year ended 30 June 2014, due to higher investment income on shareholders' funds net of investment fees. This resulted in a profit before tax for continuing operations of $209 million (2013-$144 million).

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

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2014 were $29,657 million compared to $24,859 million at 30 June 2013. The significant increase in assets of $4,798 million largely reflects the addition of the Wesfarmers insurance underwriting business ($4,364 million), effective 30 June 2014. The movement includes:

- an increase of $1,761 million in investments, with $1,724 million relating to the addition of the Wesfarmers insurance underwriting business and the balance generated from the Group's strong operating performance;
- a $1,629 million increase in goodwill and intangibles, with $1,512 million relating to the addition of the Wesfarmers insurance underwriting business and the remainder mainly attributable to software development within Australia Direct and CGU;
- an increase in other insurance assets of $738 million, which predominantly relates to the addition of the Wesfarmers insurance underwriting business. The majority of the remaining movement relates to the commencement of the CTP quota share within Australia Direct and deferred expense for the 2015 financial year reinsurance program for the Wesfarmers insurance underwriting business; and
- $456 million of the $604 million increase in premium receivable is from the addition of the Wesfarmers insurance underwriting business, with the remainder being predominantly attributable to the gross written premium growth and foreign exchange movement applicable to New Zealand.

The total liabilities of the Group as at 30 June 2014 were $22,863 million compared to $19,871 million at 30 June 2013. The increase over the current financial year is largely attributable to the addition of the Wesfarmers insurance underwriting business ($2,384 million). The notable movements are:

- an increase in outstanding claims of $1,463 million, with $1,251 million attributable to the addition of the Wesfarmers insurance underwriting business and the remainder largely reflecting the foreign exchange movement applicable to New Zealand;
- increased unearned premium liability of $1,111 million, mainly attributable to the addition of the Wesfarmers insurance underwriting business ($976 million), gross written premium growth and the foreign exchange movement applicable to New Zealand;
- a $365 million increase in reinsurance premium payable and trade and other payables, with $134 million relating to the addition of the Wesfarmers insurance underwriting business and the balance mainly relating to the payable for the 2015 financial year reinsurance program for the Wesfarmers insurance underwriting business; and
- an increase in interest bearing liabilities of $132 million mainly due to the net effect of the issue of $350 million of subordinated debt and the repurchase of the £157 million subordinated exchangeable term note.

IAG shareholders' equity (excluding non-controlling interests) increased, from $4,786 million at 30 June 2013 to $6,568 million at 30 June 2014. This movement was mainly attributable to the net effect of:

- $1,422 million (after transaction costs) raised in ordinary share capital through the combination of a fully underwritten institutional placement and a Share Purchase Plan;
- strong operating earnings performance and improved equity markets in the current financial year, resulting in a net comprehensive income attributable to shareholders of $1,233 million, and
- the 2013 final dividend and 2014 interim dividend payments totalling $823 million.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the financial year ended 30 June 2014 were $1,077 million compared to $1,790 million for the prior financial year. The decrease is mainly attributable to the net effect of:

- an increase in outward reinsurance premiums paid of $438 million which relates to the timing of quarterly catastrophe reinsurance instalments and the CTP quota share arrangement within Australia Direct;
- an increase in claim costs paid of $253 million;
- an increase in other operating payments of $187 million mainly attributable to an increase in controllable expenses and stamp duty from GWP growth;
- a decrease in other operating receipts of $146 million;
- an increase in reinsurance and other recoveries of $285 million mainly attributable to the settlement of claims; and
- an increase in gross written premium receipts of $118 million.

C. INVESTMENTS

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

Movements of note since 30 June 2013 are:

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

As at 30 June 2014, the Group's overall investment allocation remained conservatively positioned and the credit quality of the investment book was strong, with 86% (2013-86%) of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Technical reserves as at 30 June 2014 accounted for $10.4 billion (2013-$9.4 billion) of the Group's investments, and were entirely invested in fixed interest and cash.

The Group's allocation to growth assets was 42% of shareholders' funds at 30 June 2014 (2013-46%). Included within the Group's allocation to growth assets are Australian and international equities and alternative investments.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at $1,752 million at 30 June 2014, compared to $1,620 million at 30 June 2013. There have been two largely compensatory movements since that date:

- a $350 million Tier 2 subordinated debt issue completed in March 2014 and utilised to partially fund the acquisition of the Wesfarmers insurance underwriting business; and
- the repurchase of the £157 million subordinated exchangeable term note instrument in June 2014.

E. CAPITAL MIX

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

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

At 30 June 2014, the Group's capital mix was in the middle of the targeted range, with debt and hybrids representing 35.0% (2013-34.5%) of total tangible capitalisation.

F. CAPITAL MANAGEMENT

The Group remains strongly capitalised under APRA's Life and General Insurance Capital (LAGIC) standards and has set the following related targeted benchmarks:

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

At 30 June 2014, the Group had regulatory capital of $4,981 million (2013-$4,262 million), a PCA multiple of 1.72 (2013-1.67) and a CET1 multiple of 1.14 (2013-1.09).

Further capital management details are set out in the capital management note within the Financial Statements.

STRATEGY

A. STRATEGIC PRIORITIES

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

The updated priorities are:

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

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

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

II. Secure and grow IAG's businesses in Asia

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

III. Drive customer centricity

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

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

IV. Embed shared value strategy

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

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

V. Explore long term growth opportunities

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

B. BUSINESS RISK AND RISK MANAGEMENT

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

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

- strategic risk: the risk of not achieving corporate or strategic goals;
- insurance risk: the risk that the Group is exposed to financial loss, which may impact the Group's ability to meet its liabilities;
- reinsurance risk: the risk of insufficient reinsurance coverage and/or inadequate reinsurance recovery management;
- financial risks:
  - market risk: the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments;
  - credit risk: the risk of loss from a counterparty failing to meet their financial obligations;
  - liquidity risk: the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Group; and
  - capital management risk: the risk of failure to maintain adequate regulatory capital to meet the prudentially required capital levels or the Group's internal capital target.
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

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

Detail of the Group's overall risk management framework, which is outlined in the RMS, is set out in the Corporate Governance section and risk management note within the Financial Statements.

OUTLOOK

A. GWP AND INSURANCE MARGIN

The Group expects to report GWP growth of 17-20% in the financial year ending 30 June 2015. This incorporates:

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

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

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

B. ACQUISITION OF WESFARMERS BUSINESS / NEW OPERATING MODEL

The combined expected financial impact of the new Australian operating model and the integration of the Wesfarmers insurance underwriting business, in terms of synergies/benefits and one-off costs, amounts to:

- an annualised pre-tax synergy benefit run rate of approximately $80 million by the end of the financial year ending 30 June 2015 and $230 million by the end of the financial year ending 30 June 2016; and
- the recognition of one-off pre-tax synergy costs of approximately $220 million, with $50 million being recognised in the current financial year. The expectation is that most, if not all, of the remainder will be recognised in the financial year ending 30 June 2015.

DIVIDENDS

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

Cash earnings are used for the purposes of targeted return on equity (ROE) and dividend payout policy and are defined as:

- net profit after tax attributable to IAG shareholders;
- plus amortisation and impairment of acquired identifiable intangibles; and
- excluding any unusual items.

CASH EARNINGS	**2014** **$m**	2013 $m
Net profit after tax	**1,233**	776
Intangible amortisation and impairment	**21**	55
	1,254	831
Unusual items:		
Corporate expenses	**68**	54
Tax effect on corporate expenses	**(16)**	(16)
Net loss after tax from discontinued operation	**-**	287
Cash earnings*	**1,306**	1,156
Interim dividend	**304**	229
Final dividend	**609**	519
Dividend payable	**913**	748
Cash payout ratio*	**69.9%**	64.7%

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

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

The Board has determined to pay a fully franked final dividend of 26.0 cents per ordinary share (2013-25.0 cps). The final dividend is payable on 8 October 2014 to shareholders registered as at 5pm on 10 September 2014.

The dividend reinvestment plan (DRP) will operate for the final dividend. The issue price per share for the final dividend will be the volume weighted average 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 www.iag.com.au/shareholder/reinvestment/index.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- on 30 June 2014, the Group completed the acquisition of the insurance underwriting business of Wesfarmers Limited in Australia and New Zealand. Accordingly, the assets and liabilities of this business are consolidated from this date. The total consideration for the acquisition was $1,980 million which includes an initial purchase price of $1,845 million and a completion payment adjustment of $135 million. The transaction includes the Wesfarmers insurance underwriting business trading under the WFI and Lumley Insurance brands. It also includes a 10-year distribution agreement with Coles supermarket chain. The acquisition supports the Group's strategic priorities of accelerating profitable growth in Australia and sustaining its market-leading position in New Zealand.

  To fund the acquisition:
  - the Group raised $1,422 million (after transaction costs) in ordinary share capital through the combination of a fully underwritten institutional placement and a Share Purchase Plan, comprising the issue of approximately 262 million ordinary shares at $5.47 per share;
  - in March 2014 a wholly owned subsidiary of the Group, Insurance Australia Limited (IAL), issued $350 million of wholesale subordinated debt. The subordinated debt qualifies as Tier 2 Capital under APRA capital adequacy framework for general insurers; and
  - the balance being funded by internally generated cash.
- on 13 June 2014, IAL repurchased and cancelled its £157 million subordinated exchangeable loan note instrument.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year is set out below and in the events subsequent to reporting date note within the Financial Statements. This includes:

- on 19 August 2014, the Board determined to pay a final dividend of 26 cents per share, 100% franked. The dividend will be paid on 8 October 2014. The dividend reinvestment plan will operate by acquiring shares on-market for participants with no discount applied; and
- on 22 May 2014 the Group announced it would implement a new operating model for its Australian operations effective from 1 July 2014, to create a more customer-focused and efficient organisation. The new model will allow IAG to better leverage its scale and insurance expertise to deliver better outcomes for its customers, partners, people and shareholders. From 1 July 2014, in Australia, IAG will operate under three divisions:
  - Personal Insurance, led by Andy Cornish, formerly Chief Executive of Australia Direct, this division provides personal insurance products;
  - Commercial Insurance, led by Peter Harmer, formerly Chief Executive of CGU, this division provides insurance to business customers; and
  - Enterprise Operations, led by Alex Harrison, formerly Chief Operating Officer for Australia Direct, this division provides support services to Personal Insurance and Commercial Insurance.

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

The following person is currently an officer of the Group and was a partner of KPMG, the Company's auditor, at a time when KPMG was the auditor of the Company:

- Nicholas Hawkins who has been Chief Financial Officer of the Group since 29 August 2008 (left KPMG in October 2001).

NON AUDIT SERVICES

During the financial year, KPMG has performed certain other services for the Group in addition to its statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the AC, are satisfied that the provision of those non-audit services by the Group's auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit assignments were approved in accordance with the process set out in the IAG framework for engaging auditors for non-audit services; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants of the Chartered Accountants Australia and New Zealand and CPA Australia, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The level of fees for total non-audit services amounts to approximately $2.3 million (refer to the remuneration of auditors note for further details of costs incurred on individual non-audit assignments).

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

The lead auditor's independence declaration is set out on page 48 and forms part of the Directors' Report for the year ended 30 June 2014.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company's constitution contains an indemnity in favour of every person who is or has been:

- a Director of the Company or a subsidiary of the Company; or
- a Secretary of the Company or of a subsidiary of the Company; or
- a person making or participating in making decisions that affect the whole or a substantial part of the business of the Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings. The indemnity does not apply where the Company is forbidden by statute or, if given, would be made void by statute.

In addition, the Company has granted deeds of indemnity to certain current and former Directors and Secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company:

- indemnifies, to the maximum extent permitted by law, the former or current Directors or Secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud; and
- is also required to maintain and pay the premiums on a contract of insurance covering the current or former Directors or members of senior management against liabilities incurred in respect of the relevant office except as precluded by law. The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance are prohibited by the relevant contract of insurance.

ENVIRONMENTAL REGULATION

The Group's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the Group's operations. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

IAG is closely monitoring the potential impacts of the Federal Government's plans to replace the existing carbon price mechanism with its Direct Action Plan.

REMUNERATION REPORT

LETTER FROM THE PEOPLE AND REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder

IAG is pleased to present its Remuneration Report for the year ended 30 June 2014.

IAG has built on the solid foundation laid while remediating the business in 2009 and delivered a strong performance for the year ended 30 June 2014. Gross written premium (GWP) has grown from $7.8 billion in the year ended 30 June 2009 to $9.8 billion in the year ended 30 June 2014, including an increase of 3% during the current financial year. Our underlying margin, the true measure of the underlying strength of the business, has doubled since 2009 and was 14.2% in the year ended 30 June 2014. We have also recorded a strong performance in our two long term financial targets of cash return on equity (ROE) and relative total shareholder return (TSR). Cash ROE aligns the interests of shareholders and Executives as it is used to calculate the dividend paid to shareholders and as a measure for half of IAG's Long Term Incentive (LTI) plan. Our cash ROE has risen from 4.9% in 2009 to 23.0% this financial year. The ROE component of the LTI vested for the first time in the year ended 30 June 2014. Similarly, IAG's TSR measured by our LTI plan exceeded the top quartile of our peer group.

IAG's executive remuneration framework has remained constant for a number of years and is strongly tied to the short and long term performance of the business. Given IAG's performance, the value of reward received by Executives has increased in the year ended 30 June 2014, particularly reward based on long term outcomes. The following table provides a summary of some key highlights for the year ended 30 June 2014:

2014 HIGHLIGHTS	SUMMARY
Fixed remuneration movement remains conservative	IAG continues to assess the fixed remuneration of its Executives against the market. In the year ended 30 June 2014, IAG granted a 2% average fixed pay increase to Executives. This is in keeping with our target of providing market competitive fixed remuneration that takes into account an Executive's experience, skills, the internal relativities of IAG's Executive team and comparison with external roles.
Short term performance was strong	Short term performance for the year ended 30 June 2014 included strong margins and the fulfilment of important strategic goals, resulting in an average short term incentive (STI) payment of 79% of the maximum achievable for the CEO and Group Executives.
IAG delivers sustained long term performance	IAG exceeded its ROE and relative TSR targets. Based on a number of years of solid returns, the ROE and TSR hurdles for the LTI plan were met and the LTI for the Group CEO and Executive team tested during the year ended 30 June 2014 vested in full. The market value of LTI that vested during the financial year is significantly higher than that in previous years as a result of: ▪ full vesting of the ROE hurdle, for the first time. ▪ full vesting of the LTI tested in the financial year, including additional vesting through retesting of the TSR portion of prior grants. Retesting was removed from grants made after July 2013. ▪ significant share price gains, also experienced by shareholders, since the LTI was granted.
Aligning shareholder interests through the mandatory shareholding requirement	IAG believes strongly in aligning the interests of Non-Executive Directors (NEDs) and Executives with those of shareholders requiring each to hold a significant number of IAG shares. All NEDs and Executives have exceeded their requirement at 30 June 2014.

The Board will continue to ensure that IAG's reward frameworks are effective in attracting quality people and rewarding superior organisational performance in the interests of customers and shareholders. In the 2014 financial year, the Board engaged an external independent advisor to review IAG's executive remuneration framework, including the LTI. The review found that the long term targets of ROE and TSR are appropriate for Executives and are sufficiently challenging through the insurance cycle to drive the achievement of IAG's strategy and deliver strong returns for shareholders. As a result, there were no significant changes made to the executive remuneration structure.

As part of IAG's ongoing governance of reward and in line with regulations from APRA, we conducted an assessment to determine if any clawback of unvested or unexercised equity grants was required, and the Board is satisfied that no adjustment is necessary.

The Board is committed to ensuring the Remuneration Report presents executive remuneration in a consistent, concise and simple manner, as well as complying with the Corporations Act 2001. As in previous years, in this report we voluntarily disclose the actual remuneration received by Executives, in addition to meeting our statutory reporting obligations. In response to feedback on last year's report, we have included additional details of both STI and LTI performance measures and outcomes in this year's report.

The Board is confident that IAG's remuneration policies support the Group's financial and strategic goals, and meet stringent governance requirements. We believe that the Remuneration Report demonstrates clearly the alignment between executive remuneration, the Group's performance and shareholders' interests, and we look forward to your continued support for our policies, and our disclosure.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest.

Yours sincerely

Yasmin Allen
People and Remuneration Committee Chairman

A. REMUNERATION EXPLAINED

I. Key terms and definitions

The key terms and definitions used throughout this report are explained below:

TERM	DEFINITION
Actual remuneration	The dollar value of remuneration actually received by the Executives in the financial year. This is the sum of fixed remuneration plus the cash portion of the STI plus the value of DAR vested during the year plus the value of LTI in the form of EPR vested during the year.
At-risk remuneration	The components of remuneration that are at-risk because they depend on a combination of the financial performance of the Group and the Executives' performance against individual financial and non-financial measures. At-risk remuneration typically includes STI (cash and deferred remuneration) and LTI.
Base salary	Cash component of fixed remuneration.
Cash return on equity (ROE)	Based on cash earnings on average total shareholders' equity during the financial year. Cash earnings is defined as net profit after tax attributable to IAG shareholders plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items. Cash ROE is used to calculate one half of the outcome in the LTI plan.
Cash STI	The two-thirds portion of STI for the year ended 30 June 2014 that is paid in the form of cash in September 2014, following the end of year assessment and approval by the Board.
Corporate Office Executives	The Chief Financial Officer, Chief Risk Officer and Chief Strategy Officer.
Deferred STI/Deferred Award Rights (DAR)	The one-third portion of STI for the year ended 30 June 2014 that is deferred over a period of two years and awarded in the form of DAR. At the date of vesting, the holder of DAR is eligible to receive one IAG ordinary share per DAR, by paying the exercise price of $1 per tranche of DAR exercised.
Divisional Executives	The Executives with responsibility for managing a division.
Executive team	The Executives who report directly to the Group CEO.
Executives	The Group CEO and the Executive team.
Fixed remuneration	Base salary plus superannuation. Individuals can determine the mix of base salary and superannuation they receive in line with legislative requirements.
Group CEO	IAG's Managing Director and Chief Executive Officer.
Key management personnel (KMP)	The Group CEO and the Executive team responsible for managing the Group and the Board of Directors.
Long term incentive (LTI)/Executive Performance Rights (EPR)	A grant of rights in the form of EPR that are exercisable for IAG ordinary shares or cash between three and four years after the grant date if performance hurdles are achieved.
People and Remuneration Committee (PARC)	The Board committee which oversees IAG's remuneration practices.
Short term incentive (STI)	The part of annual at-risk remuneration that is designed to motivate and reward for performance, typically in that financial year. STI results are determined by performance against a balanced scorecard, based on goals which reflect financial and non-financial measures. For the Group CEO and the Executive team, one third of STI is deferred for a period of two years.
Total shareholder return (TSR)	Used as one measure of Group performance over a period of time. TSR combines share price appreciation and dividends paid to show total return to shareholders, relative to that of other companies in the peer group. IAG uses relative TSR performance to calculate one half of the LTI outcome.
WACC	Weighted average cost of capital.

II. Key management personnel covered in this report

This report sets out the remuneration details of IAG's KMP as listed below:

NAME	POSITION	TERM AS KMP
Executives		
Michael Wilkins	Managing Director and Chief Executive Officer	Full year
Duncan Brain	Chief Executive Officer, Asia	Part year - from 1/10/2013
Justin Breheny [(a)]	Chief Risk Officer	Full year
Andy Cornish	Chief Executive Officer, Australia Direct	Full year
Peter Harmer	Chief Executive Officer, CGU	Full year
Nicholas Hawkins	Chief Financial Officer	Full year
Jacki Johnson	Chief Executive Officer, New Zealand	Full year
Leona Murphy	Chief Strategy Officer	Full year
Executives who ceased as key management personnel		
Alex Harrison [(b)]	Acting Chief Executive Officer, Australia Direct	Part year - from 1/11/2013 to 28/01/2014
Non-Executive Directors		
Brian Schwartz	Chairman, Independent Non-Executive Director	Full year
Yasmin Allen	Non-Executive Director	Full year
Peter Bush	Non-Executive Director	Full year
Alison Deans	Non-Executive Director	Full year
Hugh Fletcher	Non-Executive Director	Full year
Raymond Lim	Non-Executive Director	Full year
Dr Nora Scheinkestel [(c)]	Non-Executive Director	Full year
Philip Twyman	Non-Executive Director	Full year

(a) Justin Breheny ceased as Chief Executive Officer, Asia and was appointed to the role of Chief Risk Officer on 1 October 2013.

(b) Alex Harrison was Acting Chief Executive Officer, Australia Direct from 1 November 2013 to 28 January 2014 during a period of extended leave by Andy Cornish. Disclosure of Alex Harrison's remuneration is included in the actual and statutory remuneration tables only, and relates solely to his role as acting CEO, Australia Direct. From 1 July 2014 Alex Harrison resumed as a KMP in the role of Chief Executive, Enterprise Operations.

(c) Dr Nora Scheinkestel commenced as a Director on 1 July 2013.

B. 2014 SNAPSHOT

I. Actual remuneration received by Executives

The actual remuneration paid to Executives during the current and previous financial years is set out below. IAG discloses actual remuneration voluntarily for increased transparency. Actual remuneration includes fixed remuneration, other benefits and leave accruals, termination payments and cash STI paid, as well as any deferred STI or LTI that vested in the relevant financial year. For remuneration details provided in accordance with the Accounting Standards refer to Section E.

TABLE 1 - ACTUAL REMUNERATION RECEIVED IN 2014 AND 2013

NAME	FINANCIAL YEAR	FIXED PAY	OTHER BENEFITS AND LEAVE ACCRUALS	TERMINATION PAYMENTS	CASH STI	DEFERRED STI VESTED	LTI VESTED	TOTAL ACTUAL REMUNERATION RECEIVED
		$000	$000	$000	$000	$000	$000	$000
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
EXECUTIVES								
Michael Wilkins	**2014**	**2,077**	**253**	**-**	**1,796**	**1,243**	**6,038**	**11,407**
	2013	2,039	229	-	1,679	558	1,593	6,098
Duncan Brain, KMP since 1 October 2013	**2014**	**679**	**378**	**-**	**347**	**-**	**-**	**1,404**
Justin Breheny	**2014**	**915**	**193**	**-**	**579**	**490**	**2,222**	**4,399**
	2013	898	294	-	577	230	607	2,606
Andy Cornish(8)	**2014**	**879**	**(54)**	-	**487**	**590**	**2,457**	**4,359**
	2013	1,016	73	-	632	280	557	2,558
Peter Harmer	**2014**	**995**	**(26)**	**-**	**704**	**326**	**1,672**	**3,671**
	2013	972	(1)	-	659	84	-	1,714
Nicholas Hawkins	**2014**	**995**	**(11)**	**-**	**731**	**489**	**2,342**	**4,546**
	2013	976	27	-	662	229	624	2,518
Jacki Johnson(9)	**2014**	**1,048**	**37**	**-**	**565**	**409**	**2,222**	**4,281**
	2013	907	70	-	542	194	608	2,321
Leona Murphy	**2014**	**895**	**13**	**-**	**569**	**431**	**2,109**	**4,017**
	2013	879	7	-	575	198	496	2,155
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Alex Harrison(10)	**2014**	**218**	**(1)**	-	**125**	**-**	**-**	**342**

TABLE NOTE

(1) Represents base salary plus superannuation and included an average pay increase of 2% effective October 2013.

(2) Includes benefits such as a 30% tax rebate on car allowances and movements in annual leave and long service leave accruals during the relevant financial year. Details are provided in table 11 in Section E.

(3) No termination payments were made to Executives in the current financial year.

(4) Represents two thirds of the STI for the relevant financial year. Details are provided in table 5 in Section D.

(5) Deferred STI that vested in the relevant financial year. Details are provided in table 6 in Section D. The five-day weighted average share price used to value the deferred STI at vesting date is $5.47 for awards vested on 1 July 2013 and $5.78 for awards vested on 1 September 2013. For the year ended 30 June 2013 the prices were $3.40 for awards vested on 1 July 2012 and $4.13 for awards vested on 1 September 2012.

(6) LTI that vested in the relevant financial year. Details of the plan are provided in table 7 in Section D. The five-day weighted average share price at vesting date is $5.83 for awards vested on 23 August 2013 and $5.88 for awards vested on 30 September 2013 (2013-$4.38).

(7) Total remuneration received in the relevant financial year (the sum of columns 1 to 6).

(8) Remuneration received by Andy Cornish was lower in the year ended 30 June 2014 than the previous financial year as he took a three month period of unpaid leave.

(9) Remuneration for Jacki Johnson is determined in New Zealand dollars and reported in Australian dollars. Foreign exchange movements affect the value of remuneration disclosed. The exchange rate used to report Jacki Johnson's remuneration in the year ended 30 June 2014 was NZD 1=AUD 0.90485 (2013–NZD 1=AUD 0.80055).

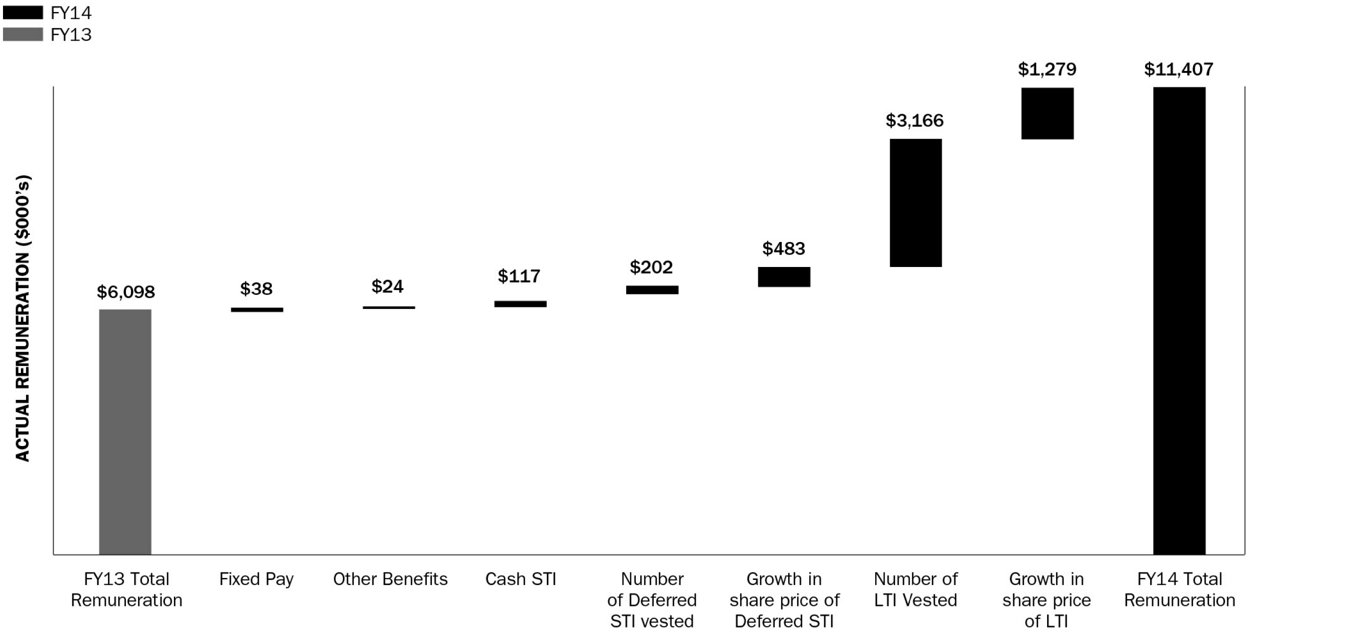
(10) Remuneration reported for Alex Harrison relates only to the three month period during which he was Acting Chief Executive Officer, Australia Direct. Share based remuneration provided to Alex Harrison in the current financial year did not relate to his role as the Acting CEO, Australia Direct and has not been disclosed.

II. Actual remuneration mix

The mix of actual remuneration components outlined in table 1 shows a significant proportion of the total reward comprising at-risk remuneration. Given IAG's strong performance, the value of variable reward has increased when compared to the previous financial year. This highlights the strength of the link between the incentive outcomes for IAG's Executives and IAG's performance.

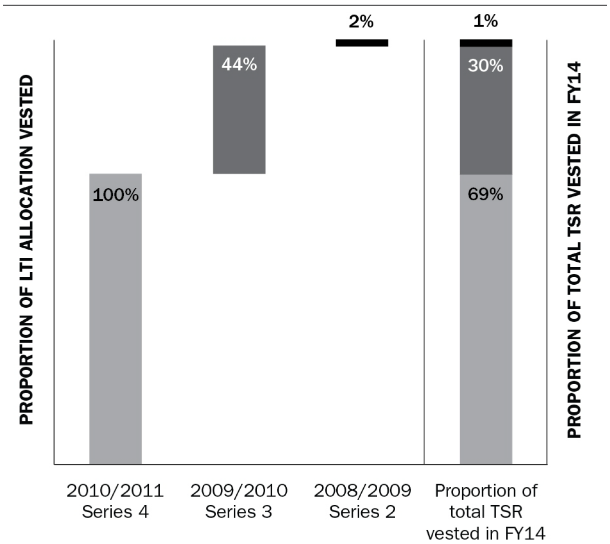
The following graph illustrates the increase using the Group CEO's remuneration as an example, broken down into the components of his remuneration plan. The deferred STI and LTI plans are illustrated to reflect the increases due to a greater number of rights vesting, as well as the increase in value of those rights since they were first granted, due to IAG's higher share price.

GROUP CEO REMUNERATION INCREASE BY COMPONENT



The CEO received a modest fixed pay increase, while the increase in other benefits relates predominantly to annual and long service leave accruals. The cash STI increased due to strong short term performance. The most significant factors in the growth of actual remuneration received are the deferred STI and LTI plan. Both plans experienced an increase in the number of rights vested in the year ended 30 June 2014, and also a significant increase in the value of IAG shares since those plans were allocated.

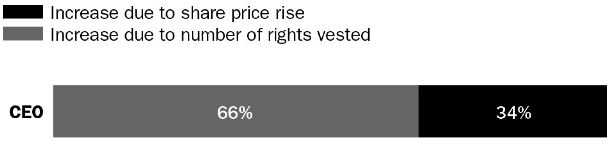
TSR COMPONENT OF LTI VESTED IN FY14



The LTI plan is the most significant driver of the increased actual remuneration received by Executives. The LTI vested in full in the year ended 30 June 2014 due to ROE outcomes that exceeded IAG's stated target for the first time and relative TSR in the top quartile of the peer group. Retesting of the TSR component also resulted in additional vesting for the LTI plan, with additional vesting of the 2008/2009 series 2 (2%) and 2009/2010 series 3 (44%) allocations also contributing 31% to the TSR related portion of the LTI that vested in the year ended 30 June 2014. Retesting was removed from the LTI plan for grants made after July 2013.

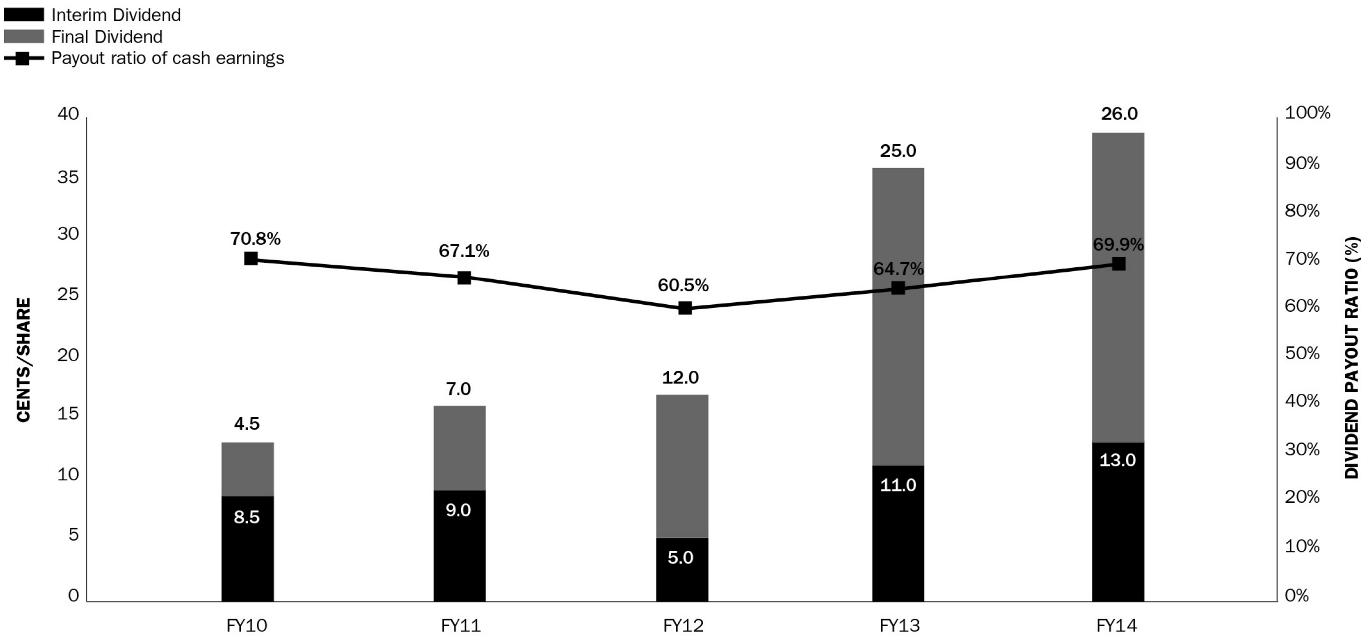
Two-thirds of the growth in LTI actually received in the current financial year was due to a greater portion of rights vesting than in previous years. The remaining growth is attributable to share price growth. The increase in the disclosed value of the LTI actually received is aligned to the performance experienced by shareholders.

GROWTH IN LTI VALUE DUE TO INCREASED VESTING AND SHARE PRICE



IAG's performance has resulted in a steady increase in the dividend payment provided to shareholders over a number of years. IAG's increasingly strong ROE has been positively reflected in the dividends shareholders receive, with the dividend payable to shareholders in respect of the year ended 30 June 2014 increasing to 39 cents. IAG continues to adhere to its dividend policy of paying approximately 50–70% of reported cash earnings to shareholders in any given financial year.

DIVIDEND – CENTS PER SHARE



C. EXECUTIVE REMUNERATION GOVERNANCE AND RISK MANAGEMENT

This report meets the remuneration reporting requirements of the Corporations Act 2001 and Accounting Standard AASB 124 Related Party Disclosures. The term remuneration used in this report has the same meaning as compensation as prescribed in AASB 124.

I. Governance

The Board is responsible for ensuring that the Group's remuneration framework is aligned to the short and long term interests of IAG and its shareholders. The PARC makes recommendations to the Board regarding Group remuneration policy including remuneration for the Executives. The Board independently considers these recommendations before making executive remuneration decisions.

a. ROLE OF THE PARC

The PARC endeavours to ensure that remuneration policies balance IAG's objectives with performance, retention, attraction and shareholder expectations. While maintaining stability in the remuneration structure is important, the PARC actively considers modifications that can better align stakeholder interests and drive performance, and makes recommendations to the Board where appropriate.

The Group CEO, Chief Strategy Officer and Group General Manager, People & Culture attend PARC meetings to assist the committee in its deliberations. Divisional Executives and the respective heads of human resources attend PARC meetings by invitation to provide updates on the human resources strategy and initiatives in their divisions. This process provides an open channel of communication between the divisions and the PARC.

The Chairman of the PARC regularly presents updates to the Board on remuneration related issues and seeks approval of initiatives and outcomes.

A copy of the PARC's charter is available on the IAG website www.iag.com.au.

The committee is comprised of Non-Executive Directors. At the date of this report, its members were:

- Yasmin Allen (Chairman);
- Brian Schwartz;
- Raymond Lim; and
- Peter Bush.

b. REMUNERATION GUIDING PRINCIPLES

IAG's remuneration practices have been designed to achieve the following objectives:

- align remuneration with the interests of IAG's shareholders by actively focusing on short to long term goals;
- motivate employees to achieve superior and sustainable performance and discourage underperformance;
- remain market competitive to attract and retain high quality people;
- be clearly communicated and valued; and
- encourage constructive behaviours and prudent risk taking that support long term financial soundness.

c. USE OF REMUNERATION CONSULTANTS

The PARC engages remuneration consultants to provide advice that ultimately assists the Board in making remuneration decisions. In 2014, the Chairman of the PARC engaged *3 degrees consulting* to provide advice regarding the appropriateness of the LTI plan, additional insights on market trends and market data in relation to CEO and senior executive remuneration levels. The PARC engaged *3 degrees consulting* independently and directly received advice free from undue influence by management. No formal 'remuneration recommendations' (as defined in the Corporations Act 2001) were made by *3 degrees consulting* during the financial year.

II. Risk management

RESTRICTIONS ON DEALING IN IAG SECURITIES

In addition to legal requirements that prevent any person from dealing in IAG securities when in possession of undisclosed price sensitive information, the Board has a restriction policy that prohibits all Directors, Executive team members and other designated senior managers from:

- short term or speculative trading in IAG securities;
- transactions that limit economic risk associated with unvested entitlements to IAG securities (including DAR and EPR); and
- any trading in IAG securities without prior approval of the PARC.

A copy of IAG's Security Trading Policy is available on the IAG website.

III. Mandatory shareholding requirements

As part of IAG's philosophy of aligning the interests of Executive and Non-Executive Directors with those of shareholders, all Executives and Non-Executive Directors are required to hold a proportion of their remuneration as IAG shares.

The Group CEO is required to accumulate and hold IAG ordinary shares with a value of two times his base salary, and the Executive team one times their respective base salaries. Executives have four financial years from their date of appointment as an Executive to meet their requirement. Holdings are assessed annually at the end of each financial year, using the closing share price at 30 June. The shareholding includes Executives' directly held shares and rights vested and unexercised as at 30 June, for entities controlled, jointly controlled or significantly influenced by the Executive. Shares held by the Executives' domestic partner and dependants are not included in the mandatory shareholding requirement.

Executives appointed prior to 30 June 2010 were required to meet the mandatory shareholding requirement at 30 June 2014 and all have done so.

Non-Executive Directors are required to hold IAG shares with a value equal to their annual Board fee. The Non-Executive Directors have three years from the date of their appointment to the Board to meet their required holding. This requirement is assessed annually at the close of each financial year.

Non-Executive Directors appointed prior to 30 June 2011 were required to meet the mandatory shareholding requirement at 30 June 2014 and all have done so.

Please refer to Section I Related Party Interests for further information.

IV. Adjustment clawback policy

From 2010, IAG introduced a discretionary clawback provision to enable awards under the DAR and EPR Plans to be adjusted to:

- protect the financial soundness of IAG or an operating segment;
- respond to significant unexpected or unintended consequences that were not foreseen by the Board; or
- respond to other circumstances where the Board determines an adjustment is necessary to ensure that an inappropriate reward outcome does not occur.

In the year ended 30 June 2014, the Board considered whether adjustment was required for unvested awards under the DAR and EPR Plans. The investigation did not reveal any requirement for the Board to adjust remuneration for the purposes discussed above.

D. EXECUTIVE REMUNERATION STRUCTURE

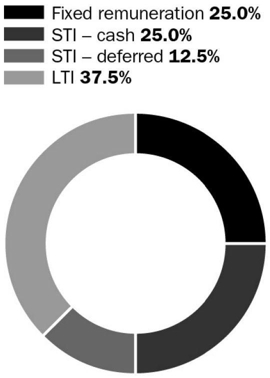
IAG's executive remuneration structure is designed to align an individual's total remuneration with Company and individual performance. It recognises that Executives have a significant influence on achieving and exceeding the Group's financial results and is designed to encourage sustained exceptional performance.

IAG provides market competitive fixed remuneration given the roles' experience, skills, the internal relativities of IAG's Executive team and market pay levels for external comparator roles. The appropriate market benchmark is determined considering organisation size, industry and geographic location.

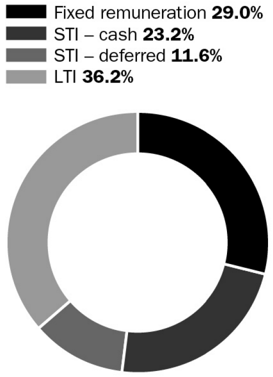
I. Potential remuneration mix

Total remuneration for the Group CEO and the Executive team comprises a mix of fixed and maximum potential at-risk remuneration (STI and LTI). The mix, shown in the graph below, is designed to pay Executives competitively based on their performance, while providing strong governance to protect the financial soundness of the business and shareholders' interests.

POTENTIAL GROUP CEO REMUNERATION MIX



AVERAGE POTENTIAL GROUP EXECUTIVE REMUNERATION MIX



Notes:

- Potential remuneration is based on current remuneration at 30 June 2014. STI and LTI are based on maximum opportunities.
- Fixed remuneration consists of base salary plus superannuation and excludes other values such as long service leave accruals, relocation and accommodation allowances, retention payments and other recurring allowances and benefits.

II. Remuneration components

The remuneration components for the Executives are explained below:

TABLE 2 - REMUNERATION COMPONENTS

REMUNERATION COMPONENT			STRATEGIC PURPOSE
Fixed remuneration	Cash	▪ Base salary and superannuation.	▪ Attract and retain high quality people.
At-risk remuneration	Cash STI	▪ 2/3 of the STI outcome paid as cash following the end of year assessment and approval by the Board.	▪ Motivate and reward performance within a financial year.
	Deferred STI	▪ 1/3 of the STI outcome is deferred over a period of two years, subject to ongoing employment conditions. ▪ Provided as a grant of rights in the form of DAR. ▪ The actual value of shares will depend on the future share price. ▪ The Board has discretion to clawback to protect the financial soundness of the Group or to ensure an appropriate reward outcome.	▪ Align reward to shareholder interests. ▪ Strike a balance between short and long term results and reward for exceptional performance. ▪ Retain high quality people. ▪ Protection of the financial soundness of the Group.
	LTI	▪ Provided as a grant of rights in the form of EPR. ▪ 3-4 year performance period. ▪ Subject to performance hurdles of relative TSR and ROE being achieved. ▪ The Board has discretion to clawback to protect the financial soundness of the Group or to ensure an appropriate reward outcome.	▪ Align reward to shareholder interests. ▪ Align remuneration with longer term financial performance. ▪ Retain high quality people. ▪ Protection of the financial soundness of the Group.

a. FIXED REMUNERATION

Fixed remuneration is reviewed regularly using independent remuneration benchmarking data. For Australian based Executives, positioning is determined by reference to a number of peer groups, including financial services companies in the S&P/ASX 50 Index and companies that are of similar size to IAG. Relevant local market peer groups are referenced for overseas based Executives.

Fixed remuneration for the year ended 30 June 2014

The average fixed remuneration increase for the Executive team for the year ended 30 June 2014 was 2% (effective October 2013). In August 2014, the Board approved an average 1.5% increase in annual fixed remuneration for the Executive team effective September 2014.

b. AT-RISK REMUNERATION

The Board strongly believes that the fundamental driver for executive remuneration should be long term financial performance that generates value for IAG shareholders. The Board further recognises that executive remuneration is guided by regulation and market forces and it benchmarks IAG's executive remuneration to ensure IAG uses at-risk remuneration components to achieve its remuneration and performance objectives.

To ensure that the Executives remain focused on long term outcomes, without encouraging excessive risk taking, the following conditions apply:

- 50% of the STI is based on financial outcomes;
- one third of the STI is deferred over a period of two years;
- vesting of the LTI does not occur before three years and there is no re-testing opportunity for the TSR performance hurdle for all post July 2013 grants of LTI; and
- the Board retains the discretion to adjust any unpaid or unvested performance related remuneration (such as cash STI, deferred STI and LTI) downwards if it decides it is appropriate to do so.

i. Cash and deferred STI

Key details of the STI plan are shown below:

TABLE 3 - STI PLAN

Description	STI refers to the at-risk remuneration designed to motivate and reward for performance in a set financial year.
Potential maximum STI amount	The Group CEO can earn up to 150% of his annual fixed remuneration and members of the Executive team can earn up to 120% of their annual fixed remuneration.
Performance measures and rationale	Performance is measured against a balanced scorecard that uses goals set against financial and non-financial measures (the balanced scorecard is discussed in more detail in table 4). Financial measures make up 50% of the balanced scorecard objectives, with the remaining 50% based on non-financial measures. This provides a balance between rewarding the achievement of financial targets and non-financial objectives that drive the execution of IAG's strategy. The following table details the weighting of financial and non-financial performance measures for the STI of the Group CEO and the Executive team.

ROLE	FINANCIAL MEASURES		NON-FINANCIAL MEASURES
	Group financial targets	Division or business financial targets	
Group CEO	50%	N/A	50%
Divisional Executives	10%	40%	50%
Corporate Office Executives	40%	10%	50%

Testing of performance measures	The Group CEO's STI is recommended by the PARC based on his balanced scorecard performance and is approved by the Board. The amount of STI paid to members of the Executive team is recommended by the Group CEO to the PARC based on the Executive team members' balanced scorecard performance and recommended by the PARC for approval by the Board. The Board may apply discretion in determining the STI outcomes to ensure they are appropriate.
Instrument	Two-thirds of the STI is paid as cash, with the remaining one-third deferred in the form of DAR that vest over two years.
Key terms of the deferred STI	Deferred STI is issued in the form of rights over IAG ordinary shares which are held by a trustee. These rights are referred to as DAR. They are issued to Executives during the financial year at no cost, to the value of their deferred STI amount. Executives who participate in this plan become eligible to receive one IAG ordinary share per DAR by paying an exercise price of $1 per tranche of DAR exercised, subject to their continuing employment with the Group for a period determined by the Board. No dividend is paid or payable for any unvested or vested and unexercised DAR. Dividends are retained by the trustee and reinvested in the trust.
Forfeiture conditions	The Board retains the discretion to adjust the unvested portion of any awards. DAR will be forfeited if the Executive resigns before the vesting date. When an Executive ceases employment in special circumstances, such as redundancy, any unvested rights may be retained on cessation of employment, subject to Board discretion.

ii. Linking performance and STI

IAG uses a balanced scorecard approach across the organisation to set performance objectives which drive the execution of its strategy. Executives and businesses have a strategy map, which defines their key strategic priorities and the balanced scorecard sets out the objectives that have to be achieved to meet these priorities. All balanced scorecards use goals set against financial and non-financial measures. The achievement of the objectives is measured and this informs the Board's determination of STI outcomes.

The table below provides a summary of key balanced scorecard objectives and outcomes for IAG for the year ended 30 June 2014. The objectives are agreed with the Board at the beginning of each financial year and are designed to be stretching to deliver sustainable value for shareholders. The key measures summarised below are used to determine the STI awarded to the Group CEO. A similar process applies for members of the Executive team.

TABLE 4 - BALANCED SCORECARD OBJECTIVES AND PERFORMANCE REQUIREMENTS

CATEGORY	OBJECTIVE	WEIGHTING	OUTCOME
Financial	ROE	20%	Exceeded target: The Group targets cash ROE of at least 1.5 times WACC through the cycle. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identifiable intangible assets 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 the year ended 30 June 2014, the Group reported a cash ROE of 23.0%, compared to 25.3% in the prior year.
	Profitable growth	20%	Did not meet target: To grow profitably and create value for shareholders, IAG needs to expand its products, markets and customer base. During the year ended 30 June 2014, GWP increased by 3% to $9.8 billion (in 2013, GWP increased by 11.8%).
	Capital & risk management	10%	Exceeded target: Managing the balance sheet to optimise the capital structure within the context of the Group's risk appetite is a key business objective and vital to the stability of the Group. The Group has maintained a strong capital position with the APRA PCA multiple at 30 June 2014 of 1.72 (compared to a Group benchmark of 1.4 to 1.6), and a Common Equity Tier 1 multiple of 1.14 (compared to a Group benchmark of 0.9 to 1.1 times the PCA).
Non-financial	Customer & partner satisfaction	10%	Met target: Customer and partner satisfaction is tracked across IAG's businesses by measuring advocacy and/or satisfaction. IAG undertakes a range of activities to improve those ratings based on feedback. In the year ended 30 June 2014, customer advocacy scores improved in Australia Direct and CGU, while they were stable in New Zealand. IAG is currently introducing customer metrics in Asia.
	Strategy development & execution	10%	Exceeded target: In the year ended 30 June 2014, IAG remained committed to its strategic priorities, focused on accelerating profitable growth in Australia; sustaining our leading position in New Zealand, and realising the potential of our Asian platform. IAG successfully completed the acquisition of the Australian and New Zealand insurance underwriting business of Wesfarmers Ltd, including the Lumley and WFI brands. Our strong market position has been further enhanced in both Australia and New Zealand. Following the restructure of the Group's Australian operations, the strategic priorities have been further refined to ensure that IAG's plans will deliver superior value for shareholders, customers and partners.
	Building the future platform	10%	Met target: IAG focused on a number of strategic initiatives that will help deliver a platform for future growth. IAG developed a refreshed information technology strategy and better leveraged its scale to improve the effectiveness of its procurement. Investment in IAG's information and analytical capability has been made. IAG continues to focus on increasing the resilience and sustainability of our communities by actively contributing to and advocating greater emphasis on disaster resilience in our communities.
	Culture & employee development	20%	Exceeded target: IAG is committed to building a culture where employees live the values of performance, integrity, respect and a considered sense of urgency. The Group culture results were positive and continue to outperform those of the financial services sector. IAG has taken further steps to build an inclusive workplace where different perspectives are valued and biases are challenged. IAG has developed a refreshed talent strategy and framework to better engage talent across the Group. IAG values gender diversity and currently 32% of all senior management roles are held by women. IAG is tracking towards a target of 33% of all senior roles held by women by 2015.

iii. STI outcomes for the year ended 30 June 2014

Cash and deferred STI payments made to the Group CEO and the Executive team for the year ended 30 June 2014 are set out below, and were based on achievement against the balanced scorecard measures described in table 4.

Each individual Executive's STI outcome is linked to the financial performance of the Group as well as to the execution of his or her division's strategic goals during the year. In line with the overall performance, the STI awarded to the Group CEO and the Executive team are on average, similar to those for last year.

TABLE 5 - ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2014

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (2/3 OF OUTCOME)	DEFERRED STI OUTCOME (1/3 OF OUTCOME)
	(% of fixed pay)*	(% of maximum)*	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
Michael Wilkins	150 %	86 %	129 %	86 %	43 %
Duncan Brain	120 %	64 %	76 %	51 %	25 %
Justin Breheny	120 %	79 %	94 %	63 %	31 %
Andy Cornish	120 %	75 %	90 %	60 %	30 %
Peter Harmer	120 %	88 %	106 %	71 %	35 %
Nicholas Hawkins	120 %	91 %	110 %	73 %	37 %
Jacki Johnson	120 %	68 %	81 %	54 %	27 %
Leona Murphy	120 %	79 %	95 %	63 %	32 %

* The proportion of STI forfeited is derived by subtracting the actual % of maximum received from the maximum STI opportunity and was 21% on average for the year ended 30 June 2014 (compared to 19% in 2013).

Changes in each Executive's holding of DAR during the financial year are set out below. The DAR granted during the year reflect the deferred portion of the STI outcome for the year ended 30 June 2013. Refer to the share based remuneration note of the Financial Statements for further DAR Plan details.

TABLE 6 - MOVEMENT IN POTENTIAL VALUE OF DAR FOR THE YEAR ENDED 30 JUNE 2014

		DAR ON ISSUE 1 JULY	DAR GRANTED DURING THE YEAR(a)	DAR EXERCISED DURING THE YEAR(b)	DAR LAPSED DURING THE YEAR	DAR ON ISSUE 30 JUNE	DAR VESTED DURING THE YEAR	DAR VESTED AND EXERCISABLE 30 JUNE
2014								
EXECUTIVES								
Michael Wilkins	Number	328,740	154,300	(216,190)	-	266,850	216,190	-
	$000		**877**	**1,240**	**-**			
Duncan Brain(c)	Number	20,200	24,400	-	-	44,600	-	-
	$000		**139**	**-**	**-**			
Justin Breheny	Number	237,450	53,100	(195,250)	-	95,300	85,370	-
	$000		**302**	**1,120**	**-**			
Andy Cornish	Number	145,950	58,100	(102,800)	-	101,250	102,800	-
	$000		**330**	**590**	**-**			
Peter Harmer	Number	92,650	60,600	(56,450)	-	96,800	56,450	-
	$000		**344**	**324**	**-**			
Nicholas Hawkins	Number	125,930	60,900	(85,080)	-	101,750	85,080	-
	$000		**346**	**488**	**-**			
Jacki Johnson	Number	107,580	49,800	(10,080)	-	147,300	71,230	61,150
	$000		**283**	**58**	**-**			
Leona Murphy	Number	111,840	52,900	(75,040)	-	89,700	75,040	-
	$000		**301**	**431**	**-**			

(a) DAR that were granted on 1 November 2013, have a first exercisable date of 1 September 2014 and an expiry date of 1 November 2020. The value of DAR granted during the year is the fair value of the DAR at grant date calculated using the Black Scholes valuation model, which was $5.68. The value of DAR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years ending 30 June 2014 to 30 June 2016).

(b) DAR that vested on 1 September 2013 or before and were exercised in the financial year. The value of DAR exercised is based on the weighted average share price which was $5.74 for the year ended 30 June 2014.

(c) Opening number of DAR on issue represents the balance as at the date of appointment of 1 October 2013.

iv. Long term incentive

Key details of the LTI plan are shown below:

TABLE 7 - LTI PLAN

Description	LTI grants are determined annually by the Board and are aligned to the Group's strategic financial targets. The grants are provided in the form of EPR and are based on an assessment of market benchmarks and performance.
Potential maximum LTI	The maximum value of EPR granted to the Group CEO and Executive team under the LTI plan is 150% and 125% of their annual fixed remuneration, respectively. The number of EPR granted is based on the face value of IAG ordinary share price at 30 June before the grant date. The EPR granted during the year will not vest and have no value unless the performance hurdles are achieved. No dividend is paid or payable for any unvested or vested and unexercised EPR.
Performance hurdles	The LTI has two performance hurdles of ROE and TSR with 50% of each allocation subject to the ROE hurdle and 50% subject to the TSR hurdle: ■ ROE is measured relative to IAG's WACC. The ROE hurdle is cash ROE to align with the reporting of IAG's financial performance to the external market and is used to determine the dividend. Cash ROE is reported ROE adjusted for amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items; and ■ TSR is measured against that of the top 50 industrials within the S&P/ASX 100 Index. An averaging calculation is used for TSR over a 90-day period for start and test day values to reduce the impact of share price volatility.
Rationale for choosing performance hurdles	The hurdles require superior financial performance over a three to four-year period and are directly linked to IAG's strategy. ROE provides evidence of company growth in profitability and is linked to shareholder return. IAG uses ROE as a key internal measure of the efficiency of its financial performance. IAG has a strategic target of achieving an ROE that is one and a half times greater than its weighted average cost of capital. TSR provides a direct link between Executive reward and shareholder return by measuring the value created for shareholders through the appreciation of the share price and the value of dividends. The value created is compared to companies within IAG's peer group. IAG has a strategic target of providing total shareholder returns in the top quartile of its peer group.
Testing of performance hurdles	**ROE** The ROE portion of LTI is tested from 1 July of the grant year to 30 June three years later. The vesting schedule is shown below: ■ no vesting below 1.2 x WACC; ■ minimum vesting at 1.2 x WACC (20% of ROE portion); and ■ maximum vesting at 1.6 x WACC (100% of ROE portion) with straight line vesting in between. **TSR** The TSR portion of LTI is tested four years after the base date (being 30 September 2017 for the September 2013 grant). There will be no re-testing for the TSR portion of awards granted after 1 July 2013, which are subject to a four year performance period. For EPR granted prior to 1 July 2013, the TSR portion of LTI is tested three years after the base date (being 30 September 2013 for the September 2010 grant) and then again at four years and five years. The vesting schedule is shown below: ■ no vesting below 50th percentile of IAG's performance measured against the top 50 industrials within the S&P/ASX 100 Index; ■ minimum vesting at 50th percentile (50% of TSR portion); and ■ maximum vesting at or above 75th percentile (100% of TSR portion) with straight line vesting in between.
Instrument	Rights granted after 1 July 2013 may be settled with IAG ordinary shares or with cash if performance hurdles are achieved, as determined by the Board. Rights granted prior to 1 July 2013 are settled with IAG ordinary shares. These are exercisable for shares if performance hurdles are achieved.
Forfeiture conditions	Under the terms of the LTI, if an Executive ceases employment with IAG voluntarily before the performance hurdles are tested, the unvested EPR will generally lapse. In cases where the Executive acts fraudulently or dishonestly or is, in the Board's opinion, in breach of his or her obligations to the Company, the unvested EPR will lapse.

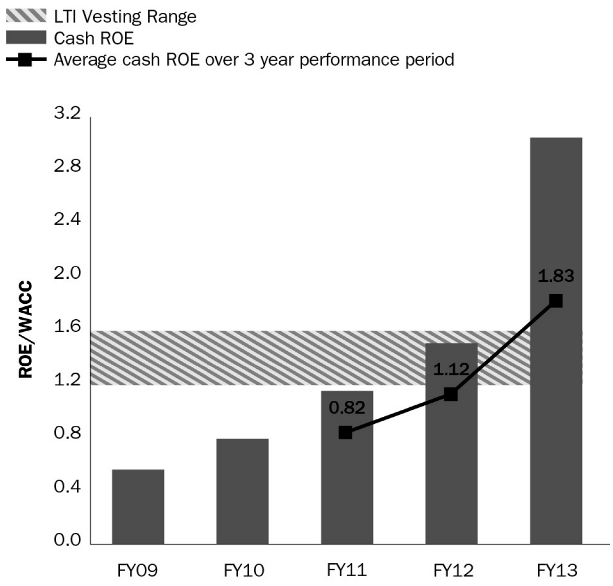
v. Linking IAG's long term performance and long term reward

IAG's LTI performance measures are challenging over the long term and require strong performance over both an internal capital efficiency measure (ROE) and an external market measure (relative TSR). Executives are only rewarded under the LTI plan when the Group exceeds its challenging long term performance targets and delivers superior financial performance over at least a three-year period.

The LTI vested in the year ended 30 June 2014 was based against IAG's performance on the ROE hurdle at 30 June 2013, and relative TSR measured at 30 September 2013. The following two graphs illustrate how IAG's long term performance affected the LTI that vested in the year ended 30 June 2014.

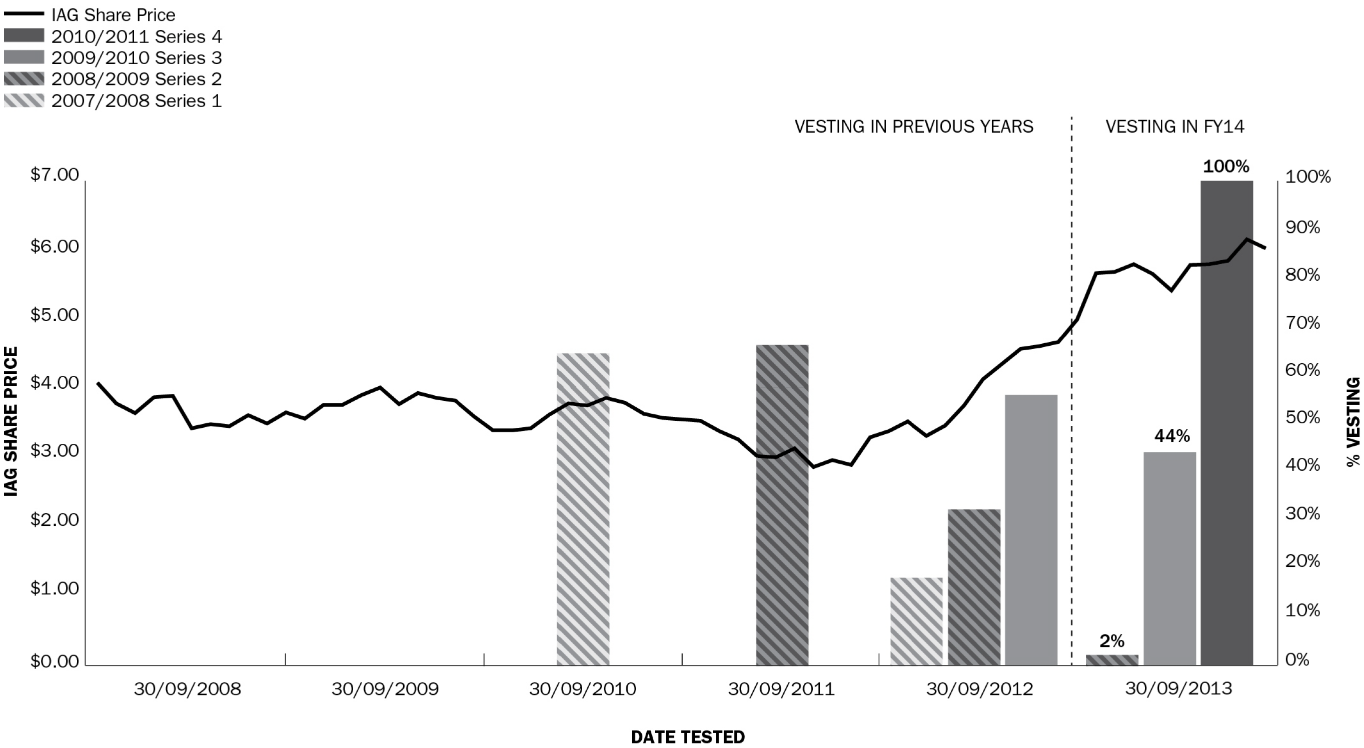
IAG measures the ROE component of the LTI over three years using cash ROE, which is the basis on which dividends are calculated for shareholders. The average cash ROE for the three years to 30 June 2013 was 1.83 times IAG's WACC. This was a strong result compared to historical returns and resulted in full vesting of the ROE portion of the 2010/2011 series 4 EPR. This is the first time the ROE portion of the LTI has vested and this strong cash ROE performance has similarly been reflected in the growing dividend provided to shareholders. The adjacent graph shows IAG's cash ROE against WACC for each of the last five financial years with reference to the LTI vesting range, to put the recent performance in a longer term context. The graph also shows the three year average cash ROE over the performance period, as measured by the LTI plan.

IAG HISTORICAL CASH ROE / WACC



IAG's LTI plan measured TSR over a three, four and five year period to 30 September 2013. IAG's TSR has been strong over the past five years, delivering value to shareholders and resulting in full vesting of the LTI plan for Executives. Over these periods, IAG generated returns to shareholders in the top quartile of the market. As past allocations of the LTI plan included the potential for retesting, each may have a proportion of the plan vesting over a number of years. In the year ended 30 June 2014, the TSR portion of the LTI vested an additional 2% for the 2008/2009 series 2, 44% for 2009/2010 series 3 and vested in full (100%) for 2010/2011 series 4 EPR. The following graph highlights IAG's historic share price and the vesting of the TSR component of all prior allocations of EPR.

IAG SHARE PRICE AND VESTING OF THE TSR COMPONENT OF THE LTI PLAN



The following table shows the returns IAG delivered to its shareholders for the last five financial years for a range of measures including TSR and ROE performance used to calculate LTI outcomes.

TABLE 8 - HISTORICAL ANALYSIS OF SHAREHOLDER RETURN ON LTI

	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2011	YEAR ENDED 30 JUNE 2012	YEAR ENDED 30 JUNE 2013	**YEAR ENDED 30 JUNE 2014**
Closing share price ($)	3.41	3.40	3.48	5.44	**5.84**
Dividend paid per ordinary share (cents)	13.00	16.00	17.00	36.00	**39.00**
Basic earnings per share (cents)	4.39	12.08	10.01	37.57	**56.09**
Cash ROE (%)	8.3	11.1	13.3	25.3	**23.0**
ROE to WACC outcome for EPR Plan	0.83	0.82	1.12	1.83	**2.34**
TSR (%)*	(0.5)	3.0	5.3	59.2	**15.6**

* This represents the TSR performance measured for the 12 months from 1 July to 30 June. This is only one indication of IAG's performance for the relevant financial year.

vi. LTI awarded and outstanding during the year ended 30 June 2014

Details of outstanding LTI awards made to Executives in the year ended 30 June 2014 are shown in table 9 below:

TABLE 9 - LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2014

AWARD	GRANT DATE	BASE DATE	FIRST TEST DATE	LAST TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2013/2014 Series 6 - TSR	01/11/2013	30/09/2013	30/09/2017		N/A	01/11/2020
2013/2014 Series 6 - ROE	01/11/2013	30/06/2013	30/06/2016		N/A	01/11/2020
2012/2013 Series 5 - TSR[(a)]	26/10/2012	30/09/2012	30/09/2015	30/09/2017	N/A	26/10/2019
2012/2013 Series 5 - ROE[(a)]	26/10/2012	30/06/2012	30/06/2015		N/A	26/10/2019
2011/2012 Series 5 - TSR[(a)]	21/10/2011	30/09/2011	30/09/2014	30/09/2016	N/A	21/10/2018
2011/2012 Series 5 - ROE[(a)(b)]	21/10/2011	30/06/2011	30/06/2014		N/A	21/10/2018
2010/2011 Series 4 - TSR	06/10/2010 03/03/2011	30/09/2010	30/09/2013	30/09/2015	100%	06/10/2017 03/03/2018
2010/2011 Series 4 - ROE	06/10/2010 03/03/2011	30/06/2010	30/06/2013		100%	06/10/2017 03/03/2018
2009/2010 Series 3 - TSR	25/09/2009 24/11/2009	30/09/2009	30/09/2012	30/09/2014	100%	25/09/2016 24/11/2016
2008/2009 Series 2 - TSR	18/09/2008 27/02/2009	30/09/2008	30/09/2011	30/09/2013	100%	18/09/2018 27/02/2019

(a) Terms and conditions for EPR Plan 2011/2012 to 2012/2013 are the same, therefore they are both referred to as series 5.

(b) The cash ROE portion of EPR Plan 2011/2012 has been tested and is expected to vest in full. Vesting details will be included in the Remuneration Report for the year ending 30 June 2015.

vii. LTI awards vested during the year ended 30 June 2014

Details of LTI vested during the year are set out below.

For EPR Plan 2010/2011 – series 4, the performance results were:

- TSR met the performance hurdle on 30 September 2013 and 100% of those rights vested upon the first test; and
- the ROE performance hurdle was tested on 30 June 2013 and 100% of those rights vested.

For EPR Plan 2009/2010 – series 3, the performance results were:

- TSR met the performance hurdle on 30 September 2013 and an additional 44% of those rights vested upon the first retest; and
- the ROE performance hurdle was not met on 30 June 2012 and these rights have been forfeited and will lapse on 30 September 2014.

For EPR Plan 2008/2009 – series 2, the performance results were:

- TSR met a higher performance hurdle on 30 September 2013 and an additional 2% of those rights vested upon the second retest; and
- the ROE performance hurdle was not met on 30 June 2011 and these rights have been forfeited and lapsed on 30 September 2013.

viii. Previously lapsed LTI awards

EPR Plan 2007/2008, 2008/2009 and 2009/2010 – series 1, 2 and 3 – ROE information has been excluded from table 9 because their test dates have passed, performance hurdles were not met and 0% of rights vested. For EPR Plan 2007/2008 - series 1, all rights with an ROE performance hurdle and 18% of rights with a TSR performance hurdle lapsed on 30 September 2012.

Changes in each Executive's holding of EPR during the financial year are set out below. The EPR granted during the year ended 30 June 2014 were in relation to the LTI plan. Refer to the share based remuneration note of the Financial Statements for further EPR Plan details.

TABLE 10 - MOVEMENT IN POTENTIAL VALUE OF EPR FOR THE YEAR ENDED 30 JUNE 2014

		EPR ON ISSUE 1 JULY	EPR GRANTED DURING THE YEAR[(a)]	EPR EXERCISED DURING THE YEAR[(b)]	EPR LAPSED DURING THE YEAR[(c)]	EPR ON ISSUE 30 JUNE	EPR VESTED DURING THE YEAR	EPR VESTED AND EX-ERCISABLE 30 JUNE	EPR FORFEITED AND WILL LAPSE IN FUTURE YEARS[(d)]
2014									
EXECUTIVES									
Michael Wilkins	Number	3,568,632	575,800	(1,030,432)	(375,000)	2,739,000	1,030,432	-	395,300
	$000		**2,390**	**5,912**	**2,206**				**2,268**
Duncan Brain[(e)]	Number	214,010	209,100	(47,060)	-	376,050	-	-	30,750
	$000		**868**	**270**	**-**				**176**
Justin Breheny	Number	1,592,285	211,400	(647,685)	(148,750)	1,007,250	379,233	-	146,950
	$000		**878**	**3,716**	**875**				**843**
Andy Cornish	Number	1,434,324	239,000	(419,374)	(125,000)	1,128,950	419,374	-	155,850
	$000		**992**	**2,406**	**735**				**894**
Peter Harmer	Number	983,300	229,800	(285,600)	-	927,500	285,600	-	-
	$000		**954**	**1,639**	**-**				**-**
Nicholas Hawkins	Number	1,409,431	229,800	(399,681)	(153,250)	1,086,300	399,681	-	151,400
	$000		**954**	**2,293**	**902**				**869**
Jacki Johnson	Number	1,475,620	212,500	(326,487)	(148,750)	1,212,883	379,233	223,433	146,950
	$000		**882**	**1,873**	**875**				**843**
Leona Murphy	Number	1,245,871	206,900	(359,871)	(126,250)	966,650	359,871	-	124,650
	$000		**859**	**2,065**	**743**				**715**

(a) All EPR were granted on 1 November 2013 and have an expiry date of 1 November 2020. EPR granted during the year and subject to the TSR performance hurdle have a grant date value of $3.04, calculated using the Monte Carlo simulation. All rights granted during the year and subject to the TSR performance hurdle are first exercisable on 30 September 2017. EPR granted during the year and subject to the ROE performance hurdle have a grant date value of $5.27, calculated using the Black Scholes valuation model. All rights granted during the year and subject to the ROE performance hurdle are first exercisable on 30 June 2016. The total value of EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years ended 30 June 2014 to 30 June 2018).

(b) EPR that vested on 30 September 2013 or before and were exercised in the financial year. The value of EPR exercised is based on the weighted average share price which was $5.74 for the year ended 30 June 2014.

(c) The value of EPR lapsed during the year ended 30 June 2014 is based on the five day weighted average share price which was $5.88 to 30 September 2013.

(d) During the year ended 30 June 2014, the value of EPR forfeited is based on the weighted average share price which was $5.74 for the year ended 30 June 2014.

(e) Opening number of EPR on issue represents the balance as at the date of appointment of 1 October 2013.

E. EXECUTIVE REMUNERATION IN DETAIL

I. Total remuneration for Executives

Statutory remuneration details for the Group CEO and the Executive team required by the Accounting Standards are set out below:

TABLE 11 - STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	SUB-TOTAL	SHARE BASED PAYMENT		TOTAL	PROPORTION OF TOTAL REMUNERATION	
	Base salary	Short term incentive	Leave accruals and other benefits	Superannuation	Long service leave accruals		Value of deferred short term incentive	Value of rights granted		AT-RISK	SHARE BASED PAYMENTS
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
EXECUTIVES											
Michael Wilkins											
2014	**2,059**	**1,796**	**209**	**18**	**44**	**4,126**	**844**	**2,504**	**7,474**	**69**	**45**
2013	2,023	1,679	197	16	32	3,947	613	2,470	7,030	68	44
Duncan Brain, KMP since 1 October 2013											
2014	**660**	**347**	**282**	**19**	**96**	**1,404**	**148**	**326**	**1,878**	**44**	**25**
Justin Breheny											
2014	**890**	**579**	**173**	**25**	**20**	**1,687**	**309**	**903**	**2,899**	**62**	**42**
2013	873	577	273	25	21	1,769	241	875	2,885	59	39
Andy Cornish(12)											
2014	**854**	**487**	**(71)**	**25**	**17**	**1,312**	**334**	**1,018**	**2,664**	**69**	**51**
2013	991	632	60	25	12	1,720	289	1,007	3,016	64	43
Peter Harmer											
2014	**970**	**704**	**(35)**	**25**	**9**	**1,673**	**287**	**986**	**2,946**	**67**	**43**
2013	947	659	(8)	25	7	1,630	163	726	2,519	61	35
Nicholas Hawkins											
2014	**970**	**731**	**23**	**25**	**(34)**	**1,715**	**320**	**976**	**3,011**	**67**	**43**
2013	951	662	12	25	15	1,665	240	934	2,839	65	41
Jacki Johnson(13)											
2014	**1,048**	**565**	**6**	**-**	**31**	**1,650**	**271**	**889**	**2,810**	**61**	**41**
2013	907	542	41	-	29	1,519	201	862	2,582	62	41
Leona Murphy											
2014	**870**	**569**	**(5)**	**25**	**18**	**1,477**	**283**	**880**	**2,640**	**66**	**44**
2013	854	575	(7)	25	14	1,461	212	834	2,507	65	42
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL											
Alex Harrison(14)											
2014	**212**	**125**	**(3)**	**6**	**2**	**342**	**-**	**-**	**342**	**37**	**-**

TABLE NOTE

(1) Base salary includes amounts paid in cash plus the portion of the Company's superannuation contribution that is paid as cash instead of being paid into superannuation plus salary sacrifice items such as cars and parking, as determined in accordance with AASB 119 Employee Benefits.

(2) STI represents the amount to be settled in cash in relation to the financial year from 1 July to 30 June.

(3) This column includes leave accruals, 30% tax rebate on car allowances for certain KMP who have salary sacrifice arrangements on cars and other short term employment benefits as agreed and provided under specific conditions. Other benefits provided under specific conditions for various KMP are provided below:

2014:

- Duncan Brain: $163,758 for accommodation allowances, airfares for home visits and other benefits;
- Justin Breheny: $133,846 for other benefits, accommodation, health insurance, tax compliance, air fares for home visits and the value of interest payable on a loan (for further details, see the Section I Related party interests in this report); and
- Jacki Johnson: $18,325 (NZ$20,252) for accommodation allowances and other benefits.

2013:

- Justin Breheny: $266,337 for other benefits, accommodation, health insurance, tax compliance and airfares for home visits;
- Andy Cornish: a one-off payment of $55,024 as compensation for changes to living away from home allowance (LAFHA) legislation; and
- Jacki Johnson: $45,794 (NZ$57,203) for accommodation allowances and other benefits.

(4) Superannuation represents the employer's contributions. Refer to the superannuation note of the Financial Statements for superannuation plan details.

(5) Long service leave accruals as determined in accordance with AASB 119.

(6) The sum of columns (1) to (6). The sub-total includes the value of termination payments, which is not shown as no termination payments were made to Executives during the year ended 30 June 2014.

(7) The deferred STI is granted as DAR and is valued using the Black Scholes valuation model. An allocated portion of unvested DAR for financial years prior to 30 June 2013 is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2014 will be granted in the next financial year, so no value was included in the current financial year's total remuneration.

(8) This value represents the allocated portion of unvested EPR. To determine the EPR values the Monte Carlo simulation (for TSR performance hurdle) and Black Scholes valuation (for ROE performance hurdle) models have been applied. The valuation takes into account the exercise price of the EPR, life of the EPR, price of IAG ordinary shares as at 30 June, expected volatility of the IAG share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non-transferability and turnover which is assumed to be zero for an individual's remuneration calculation.

(9) The sum of columns (1) to (8).

(10) At-risk remuneration received during the financial year as a percentage of total reward.

(11) Share based remuneration granted during the financial year as a percentage of total reward.

(12) Remuneration received by Andy Cornish was lower in the year ended 30 June 2014 than the previous financial year as he took a three month period of unpaid leave.

(13) Remuneration for Jacki Johnson is determined in New Zealand dollars and reported in Australian dollars. Foreign exchange movements affect the value of remuneration disclosed. The exchange rate used to report Jacki Johnson's remuneration in the year ended 30 June 2014 was NZD 1=AUD 0.90485 (2013-NZD 1=AUD 0.80055).

(14) Remuneration reported for Alex Harrison relates only to the three-month period during which he was Acting Chief Executive Officer (CEO), Australia Direct. Share based remuneration provided to Alex Harrison in the current financial year did not relate to his role as the Acting CEO, Australia Direct and has not been disclosed.

F. EXECUTIVE EMPLOYMENT AGREEMENTS

All employment agreements for the Group CEO and the Executive team are for unlimited terms but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The employment agreements outline the components of remuneration paid to each Executive and require annual review of Executives' remuneration, although the agreements do not require IAG to increase base salary, pay STI or offer an LTI in any given year.

TABLE 12 - EXECUTIVE EMPLOYMENT AGREEMENTS

NAME	NOTICE PERIOD FROM THE COMPANY	NOTICE PERIOD FROM THE EMPLOYEE	TERMINATION PROVISIONS
Michael Wilkins	12 months	6 months	12 months fixed remuneration and STI that would have accrued for 12 months had termination not occurred. An additional six months fixed remuneration is payable if IAG invokes a restraint clause.
Duncan Brain	12 months	6 months	12 months base salary
Justin Breheny	12 months	6 months	12 months base salary
Andy Cornish	12 months	3 months	12 months fixed remuneration
Peter Harmer	12 months	6 months	12 months base salary
Nicholas Hawkins	12 months	3 months	12 months base salary
Jacki Johnson	12 months	3 months	12 months fixed remuneration
Leona Murphy	12 months	3 months	12 months base salary

Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave for the Executives.

Executives are employed by Insurance Australia Group Services Pty Limited, except for:

- Jacki Johnson who is employed by IAG New Zealand Limited.

I. Retrenchment

In the event of retrenchment, the Executives listed above (except for Jacki Johnson) are entitled to the greater of:

- the written notice or payment in lieu of notice as provided in their employment agreement; or
- the retrenchment benefits due under the relevant Company retrenchment policy.

For Executives based in Australia, the minimum benefit under the retrenchment policy is 11 weeks of base salary and the maximum benefit that can be received is 87 weeks of base salary. The maximum benefit is payable to employees with service of 25 years or more.

For Jacki Johnson, the retrenchment payment is in accordance with the termination provisions specified in the table above.

II. Termination of employment without notice and without payment in lieu of notice

The employment of an Executive may be terminated without notice and without payment in lieu of notice in some circumstances. Generally, this could occur where the Executive:

- is charged with a criminal offence that is capable of bringing the organisation into disrepute;
- is declared bankrupt;
- breaches a provision of their employment agreement;
- is guilty of serious and wilful misconduct; or
- unreasonably fails to comply with any material and lawful direction given by the relevant company.

III. Termination of employment with notice or payment in lieu of notice

The employment of an Executive may be terminated at any time by the relevant company with notice or payment in lieu of notice. The amount of notice the relevant company must provide or the payment in lieu of notice is specified above.

G. NON-EXECUTIVE DIRECTOR REMUNERATION

I. Remuneration policy

The principles that underpin IAG's approach to remuneration for Non-Executive Directors are that remuneration should:

- be sufficiently competitive to attract and retain a high calibre of Non-Executive Director; and
- create alignment between the interests of Non-Executive Directors and shareholders through the mandatory shareholding requirement.

II. Remuneration structure

Non-Executive Director remuneration has three components:

- Board fees (paid as cash);
- superannuation; and
- subsidiary Board and Committee fees.

a. CHANGES TO NON-EXECUTIVE REMUNERATION DURING THE YEAR ENDED 30 JUNE 2014

On 15 August 2013, the Board approved a 2% increase in the Board and Committee fees effective from 1 July 2013.

In response to APRA's requirement for listed organisations to operate independent Audit and Risk Committees, IAG established these independent committees in February 2014. The previous Audit, Risk Management and Compliance Committee was discontinued at this time.

In August 2013, the Board adopted a total fee approach to Non-Executive Director remuneration. A total fee approach is the most common market practice, with fees being presented inclusive of superannuation contributions. To reflect this approach, the figures shown below are inclusive of superannuation, and fees for the year ended 30 June 2013 have been restated accordingly. Directors can elect the portion of fees contributed into their nominated superannuation fund, provided minimum legislated contribution levels are met.

The aggregate limit of Board fees to $3,500,000 per annum was approved by shareholders at the annual general meeting in October 2013.

TABLE 13 - BOARD AND COMMITTEE FEES

			ANNUAL FEE
BOARD/COMMITTEE	ROLE	**2014**	2013
Board	Chairman	**$549,300**	$538,569
	Non-Executive Director	**$183,100**	$179,523
Audit Committee	Chairman	**$39,700**	n/a
	Member	**$19,850**	n/a
Risk Committee	Chairman	**$39,700**	n/a
	Member	**$19,850**	n/a
People and Remuneration Committee	Chairman	**$39,700**	$38,913
	Member	**$19,850**	$19,457
Audit, Risk Management and Compliance Committee*	Chairman	**n/a**	$60,059
	Member	**n/a**	$30,030

* The Audit, Risk Management & Compliance Committee was replaced by the Audit Committee and Risk Committee during February 2014.

b. SUBSIDIARY BOARD AND COMMITTEE FEES

A summary of Non-Executive Directors' service on subsidiary Boards and the fees paid are set out below:

TABLE 14 - FEES FOR NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
Brian Schwartz	Insurance Manufacturers of Australia Pty Limited	Chairman	$239,804
Hugh Fletcher*	IAG New Zealand Limited	Chairman	$135,728

* This amount was paid to Hugh Fletcher in New Zealand dollars and has been converted to Australian dollars using the average exchange rate for the year.

III. Board Performance
A formal external review of the performance, composition and size of the Board is conducted every three years. A formal review of the Board and each Non-Executive Director (including the Chairman) was conducted during the year by an independent board performance expert. The review process involved one-on-one interviews and questionnaires completed by each Non-Executive Director and the Group Executives; the collation of results; and discussion with individual Non-Executive Directors and the Board as a whole led by the Chairman. The resultant evaluation reports were reviewed and discussed by the Board, for action as necessary. In the years this review is not conducted, performance is evaluated by the Chairman via discussion between the Chairman and the individual Director. In reviewing Directors' performance the Chairman and Board consider:

- the Director's contribution to Board teamwork;
- the Director's contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- in the case of the Chairman's performance, the fulfilment of the additional role as Chairman; and
- input regarding regulatory, industry and social developments surrounding the business.

The PARC is responsible for coordinating the Board's review of the Chairman's performance.

IV. Total remuneration details
Details of total remuneration for Non-Executive Directors on the Board for the year ended 30 June 2014 are set out below:

TABLE 15 - STATUTORY REMUNERATION DETAILS (NON-EXECUTIVE DIRECTORS)

	SHORT TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other Boards and Committee fees	Superannuation	Retirement benefits				
	$000	$000	$000	$000	$000	$000	$000	$000
Brian Schwartz								
2014	**552**	**220**	**18**	**-**	**-**	**-**	**-**	**790**
2013	540	220	19	-	-	-	-	779
Yasmin Allen								
2014	**172**	**68**	**18**	**-**	**-**	**-**	**-**	**258**
2013	169	63	16	-	-	-	-	248
Peter Bush								
2014	**168**	**18**	**17**	**-**	**-**	**-**	**-**	**203**
2013	165	24	17	-	-	-	-	206
Alison Deans								
2014	**168**	**31**	**18**	**-**	**-**	**-**	**-**	**217**
2013	69	11	7	-	-	-	-	87
Hugh Fletcher								
2014	**168**	**167**	**18**	**-**	**-**	**-**	**-**	**353**
2013	165	112	17	-	-	-	-	294
Raymond Lim								
2014	**168**	**18**	**17**	**-**	**-**	**-**	**-**	**203**
2013	69	7	7	-	-	-	-	83
Dr Nora Scheinkestel, appointed Director on 1 July 2013								
2014	**169**	**21**	**16**	**-**	**-**	**-**	**-**	**206**
Philip Twyman								
2014	**170**	**56**	**18**	**-**	**-**	**-**	**-**	**244**
2013	168	55	16	-	-	-	-	239

H. OTHER BENEFITS
Remuneration does not include premiums paid by IAG for an insurance contract covering current and former Non-Executive Directors' and Executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid to individual Non-Executive Directors and Executives and the terms of contract specifically prohibit the disclosure of the premium paid. Insurance products provided by the Group are available to all Non-Executive Directors and Executives on the same terms and conditions available to other employees.

I. RELATED PARTY INTERESTS

In accordance with the Corporations Act Regulation 2M.3.03, the Remuneration Report is required to include disclosure of related parties.

I. Movements in total number of ordinary shares held

The relevant interests of each key management personnel and their related parties in ordinary shares of IAG are disclosed in the table below:

TABLE 16 - MOVEMENTS IN TOTAL NUMBER OF ORDINARY SHARES HELD

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF EPR	SHARES RECEIVED ON EXERCISE OF DAR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[(a)]	TOTAL SHARES HELD AT 30 JUNE[(b)]	SHARES HELD NOMINALLY AT 30 JUNE[(c)]
	Number	Number	Number	Number	Number	Number
2014						
Brian Schwartz	**101,675**	**-**	**-**	**6,076**	**107,751**	**105,448**
Yasmin Allen	**39,011**	**-**	**-**	**2,742**	**41,753**	**40,087**
Peter Bush	**-**	**-**	**-**	**31,500**	**31,500**	**-**
Alison Deans	**15,000**	**-**	**-**	**22,742**	**37,742**	**37,742**
Hugh Fletcher	**74,208**	**-**	**-**	**4,568**	**78,776**	**42,215**
Raymond Lim	**-**	**-**	**-**	**30,000**	**30,000**	**30,000**
Dr Nora Scheinkestel	**-**	**-**	**-**	**32,826**	**32,826**	**2,760**
Philip Twyman	**57,780**	**-**	**-**	**(9,758)**	**48,022**	**45,280**
Michael Wilkins	**1,549,194**	**1,030,432**	**216,190**	**(747,786)**	**2,048,030**	**1,207,840**
Duncan Brain[(d)]	**87,627**	**47,060**	**-**	**(83,000)**	**51,687**	**4,000**
Justin Breheny	**204,450**	**647,685**	**195,250**	**(807,108)**	**240,277**	**-**
Andy Cornish	**391,234**	**419,374**	**102,800**	**(566,377)**	**347,031**	**-**
Peter Harmer	**20,250**	**285,600**	**56,450**	**-**	**362,300**	**-**
Nicholas Hawkins	**396,644**	**399,681**	**85,080**	**(654,258)**	**227,147**	**-**
Jacki Johnson	**379,193**	**326,487**	**10,080**	**(75,000)**	**640,760**	**2,500**
Leona Murphy	**371,087**	**359,871**	**75,040**	**(512,596)**	**293,402**	**114,381**
2013						
Brian Schwartz	99,434	-	-	2,241	101,675	99,518
Yasmin Allen	39,011	-	-	-	39,011	37,345
Peter Bush	-	-	-	-	-	-
Alison Deans	-	-	-	15,000	15,000	15,000
Hugh Fletcher	73,002	-	-	1,206	74,208	39,018
Raymond Lim	-	-	-	-	-	-
Phillip Twyman	57,780	-	-	-	57,780	57,780
Michael Wilkins	1,038,826	363,868	146,500	-	1,549,194	799,166
Justin Breheny	132,150	-	72,300	-	204,450	198,550
Andy Cornish	191,208	127,276	72,750	-	391,234	-
Peter Harmer	-	-	20,250	-	20,250	-
Nicholas Hawkins	395,371	142,464	60,080	(201,271)	396,644	-
Jacki Johnson	229,338	98,175	51,680	-	379,193	2,500
Leona Murphy	110,597	196,679	51,830	11,981	371,087	114,208
DIRECTORS AND EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL						
Phillip Colebatch	46,692	-	-	-	[(e)]	[(e)]
Ian Foy	110,058	85,359	60,610	(100,000)	[(e)]	[(e)]
Anna Hynes	40,242	-	-	-	[(e)]	[(e)]

(a) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year.

(b) On 1 July after each financial year end, some DAR on issue vested and became exercisable by the KMP. Some KMP exercised those newly vested DAR post 30 June.

(c) Nominally held shares are included in the column headed total shares held at 30 June and include those held by the KMP's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the KMP.

(d) Opening number of shares held represents the balance as at the date of appointment of 1 October 2013.

(e) These Non-Executive Directors or Executives ceased as KMP during the prior financial year. Information on shares held is disclosed up to the date of their cessation of service.

II. Movements in total number of convertible preference shares

Philip Twyman acquired 957 (2013-2,058) convertible preference shares during the year holding a total of 3,015 shares as at 30 June 2014. Justin Breheny held 16 (2013-16) convertible preference shares at the beginning and end of the financial year. No other key management personnel had any interest directly or nominally in convertible preference shares at any time during the financial year (2013-nil).

III. Movements in total number of reset exchangeable securities held
No key management personnel had any interest directly or nominally in reset exchangeable securities of IAG Finance (New Zealand) Limited at any time during the financial year (2013-nil).

IV. Other related party transactions with key management personnel
Justin Breheny was provided with an unsecured loan of $779,672 on 21 March 2014 to assist with tax obligations incurred as a result of his move from Singapore to Australia. The balance of this loan at 30 June 2014 was $633,040, with the highest outstanding balance during the reporting period being $779,672. The loan is an interest free loan and would have accrued an interest charge of $13,228. A repayment of $146,632 was made during the period, with the balance to be repaid on the expiry of the loan on 29 May 2015.

RELEVANT INTEREST OF EACH DIRECTOR AND THEIR RELATED PARTIES IN LISTED SECURITIES OF THE IAG GROUP IN ACCORDANCE WITH THE CORPORATIONS ACT 2001

A. HOLDINGS OF ORDINARY SHARES

	FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	Shares held directly [(a)]	Shares held indirectly [(b)]
Brian Schwartz	**2,303**	**105,448**
Yasmin Allen	**1,666**	**40,087**
Peter Bush	**31,500**	**-**
Alison Deans	**-**	**37,742**
Hugh Fletcher	**36,561**	**42,215**
Raymond Lim	**-**	**30,000**
Dr Nora Scheinkestel	**30,066**	**2,760**
Philip Twyman	**2,742**	**45,280**
Michael Wilkins	**840,190**	**1,207,840**

(a) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001 until the date the financial report is signed. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG Director to trade in the shares of the Group where they are in a position to be aware, or are aware, of price sensitive information.

(b) These IAG shares are held by the Director's related parties, inclusive of entities controlled, jointly controlled or significantly influenced by the Directors, as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001.

B. HOLDING OF CONVERTIBLE PREFERENCE SHARES
Philip Twyman held 3,015 (2013-2,058) convertible preference shares as at the reporting date. No other Director and their related parties had any interest directly or nominally in convertible preference shares at the reporting date (2013-nil).

C. HOLDING OF RESET EXCHANGEABLE SECURITIES
No Director and their related parties had any interest in reset exchangeable securities of IAG Finance (New Zealand) Limited at the reporting date (2013-nil).

ROUNDING OF AMOUNTS
Unless otherwise stated, amounts in the financial report and Directors' Report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 19th day of August 2014 in accordance with a resolution of the Directors.

Michael Wilkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

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

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
19 August 2014

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	CONSOLIDATED 2014 $m	2013 $m
Premium revenue	4	**9,721**	9,135
Outwards reinsurance premium expense	5	**(1,077)**	(817)
Net premium revenue (i)		**8,644**	8,318
Claims expense	5	**(7,058)**	(5,800)
Reinsurance and other recoveries revenue	4	**1,857**	818
Net claims expense (ii)	10	**(5,201)**	(4,982)
Acquisition costs	5	**(1,386)**	(1,203)
Reinsurance commission revenue	4	**51**	-
Net acquisition costs		**(1,335)**	(1,203)
Other underwriting expenses	5	**(752)**	(644)
Fire services levies	5	**(216)**	(331)
Underwriting expenses (iii)		**(2,303)**	(2,178)
Underwriting profit/(loss) (i) + (ii) + (iii)		**1,140**	1,158
Investment income on assets backing insurance liabilities	4	**459**	290
Investment expenses on assets backing insurance liabilities	5	**(20)**	(20)
Insurance profit/(loss)		**1,579**	1,428
Investment income on shareholders' funds	4	**400**	371
Fee and other income	4	**199**	175
Share of net profit/(loss) of associates	4	**(8)**	(29)
Finance costs	5	**(98)**	(95)
Fee based, corporate and other expenses	5	**(256)**	(245)
Net income/(loss) attributable to non-controlling interests in unitholders' funds	5	**(14)**	(12)
Profit/(loss) before income tax from continuing operations		**1,802**	1,593
Income tax (expense)/credit	6	**(472)**	(424)
Profit/(loss) after tax from continuing operations		**1,330**	1,169
Profit/(loss) after tax from discontinued operation		**-**	(287)
Profit/(loss) for the year		**1,330**	882
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans		**26**	35
Income tax on items that will not be reclassified to profit or loss		**(8)**	(12)
		18	23
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve		**(31)**	82
Income tax on items that may be reclassified to profit or loss		**13**	40
		(18)	122
Other comprehensive income and (expense), net of tax		**-**	145
Total comprehensive income and (expense) for the year, net of tax		**1,330**	1,027
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent - continuing operations		**1,233**	1,063
Shareholders of the Parent - discontinued operation		**-**	(287)
Non-controlling interests		**97**	106
Profit/(loss) for the year		**1,330**	882
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent - continuing operations		**1,233**	1,127
Shareholders of the Parent - discontinued operation		**-**	(206)
Non-controlling interests		**97**	106
Total comprehensive income and (expense) for the year, net of tax		**1,330**	1,027

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	CONSOLIDATED	
		2014	2013
		cents	cents
EARNINGS PER SHARE - continuing and discontinued operations			
Basic earnings per ordinary share	8	**56.09**	37.57
Diluted earnings per ordinary share	8	**53.62**	36.44
EARNINGS PER SHARE - continuing operations			
Basic earnings per ordinary share	8	**56.09**	51.46
Diluted earnings per ordinary share	8	**53.62**	49.60

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

BALANCE SHEET
AS AT 30 JUNE 2014

	NOTE	CONSOLIDATED	
		2014	2013
		$m	$m
ASSETS			
Cash held for operational purposes	22	**447**	394
Investments	14	**15,377**	13,616
Premium receivable	15	**3,316**	2,712
Trade and other receivables	15	**628**	526
Assets discontinued operation		**9**	96
Reinsurance and other recoveries on outstanding claims	11	**3,231**	2,858
Deferred levies and charges		**119**	151
Deferred outwards reinsurance expense	12	**706**	542
Deferred acquisition costs	12	**1,028**	795
Deferred tax assets	6	**304**	401
Property and equipment		**249**	257
Other assets		**131**	23
Investment in joint venture and associates	26	**572**	577
Intangible assets	16	**700**	245
Goodwill	17	**2,840**	1,666
Total assets		**29,657**	24,859
LIABILITIES			
Trade and other payables	18	**1,523**	1,263
Reinsurance premium payable		**556**	451
Restructuring provision	19	**50**	6
Current tax liabilities		**203**	253
Unearned premium liability	13	**6,256**	5,145
Liabilities discontinued operation		**20**	106
Non-controlling interests in unitholders' funds		**190**	210
Employee benefits provision	27	**335**	305
Outstanding claims liability	10	**11,937**	10,474
Other liabilities		**41**	38
Interest bearing liabilities	20	**1,752**	1,620
Total liabilities		**22,863**	19,871
Net assets		**6,794**	4,988
EQUITY			
Share capital	21	**6,775**	5,353
Treasury shares held in trust		**(94)**	(62)
Reserves		**38**	63
Retained earnings		**(151)**	(568)
Parent interest		**6,568**	4,786
Non-controlling interests		**226**	202
Total equity		**6,794**	4,988

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED	SHARE CAPITAL	TREASURY SHARES HELD IN TRUST	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE BASED REMUN-ERATION RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	$m	$m	$m	$m	$m	$m	$m
2014							
Balance at the beginning of the financial year	**5,353**	**(62)**	**28**	**35**	**(568)**	**202**	**4,988**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**1,233**	**97**	**1,330**
Other comprehensive income and (expense)	**-**	**-**	**(18)**	**-**	**18**	**-**	**-**
Total comprehensive income/(expense) for the year	**-**	**-**	**(18)**	**-**	**1,251**	**97**	**1,330**
Transactions with owners in their capacity as owners							
Shares issued under institutional placement, net of transaction costs	**1,186**	**-**	**-**	**-**	**-**	**-**	**1,186**
Shares issued under Share Purchase Plan, net of transaction costs	**236**	**-**	**-**	**-**	**-**	**-**	**236**
Shares acquired and held in trust	**-**	**(78)**	**-**	**-**	**-**	**-**	**(78)**
Share based payment expense recognised	**-**	**-**	**-**	**25**	**-**	**-**	**25**
Share based remuneration vested	**-**	**46**	**-**	**(32)**	**(14)**	**-**	**-**
Non-controlling interests in acquisitions during the year	**-**	**-**	**-**	**-**	**-**	**8**	**8**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(823)**	**(81)**	**(904)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Balance at the end of the financial year	**6,775**	**(94)**	**10**	**28**	**(151)**	**226**	**6,794**
2013							
Balance at the beginning of the financial year	5,353	(55)	(94)	26	(887)	181	4,524
Profit/(loss) for the year	-	-	-	-	776	106	882
Other comprehensive income and (expense)	-	-	122	-	23	-	145
Total comprehensive income/(expense) for the year	-	-	122	-	799	106	1,027
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	-	(28)	-	-	-	-	(28)
Share based payment expense recognised	-	-	-	27	-	-	27
Share based remuneration vested	-	21	-	(18)	(3)	-	-
Dividends determined and paid	-	-	-	-	(478)	(85)	(563)
Dividends received on treasury shares held in trust	-	-	-	-	1	-	1
Balance at the end of the financial year	5,353	(62)	28	35	(568)	202	4,988

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	CONSOLIDATED	
		2014	2013
		$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**9,661**	9,543
Reinsurance and other recoveries received		**1,778**	1,493
Claims costs paid		**(6,898)**	(6,645)
Outwards reinsurance premium expense paid		**(1,130)**	(692)
Dividends received		**38**	33
Interest and trust distributions received		**533**	615
Finance costs paid		**(95)**	(88)
Income taxes refunded		**7**	3
Income taxes paid		**(439)**	(427)
Other operating receipts		**736**	882
Other operating payments		**(3,114)**	(2,927)
Net cash flows from operating activities	22	**1,077**	1,790
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on acquisition/capital injection to subsidiaries and associates		**(312)**	(245)
Net cash flows on disposal of subsidiaries		**-**	43
Proceeds from disposal of investments and property and equipment		**14,543**	14,166
Outlays for investments and property and equipment		**(14,526)**	(15,445)
Net cash flows from investing activities		**(295)**	(1,481)
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for purchase of treasury shares		**(78)**	(28)
Proceeds from issue of trust units		**163**	169
Outlays for redemption of trust units		**(197)**	(188)
Proceeds from borrowings		**347**	-
Repayment of borrowings		**(283)**	(99)
Dividends paid to IAG shareholders		**(823)**	(478)
Dividends paid to non-controlling interests		**(81)**	(85)
Proceeds from issue of shares, net of transaction costs		**1,422**	-
Dividends received on treasury shares		**3**	1
Net cash flows from financing activities		**473**	(708)
Net movement in cash held		**1,255**	(399)
Effects of exchange rate changes on balances of cash held in foreign currencies		**39**	49
Cash and cash equivalents at the beginning of the financial year		**1,716**	2,066
Cash and cash equivalents at the end of the financial year	22	**3,010**	1,716

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. This financial report is for the reporting year ended 30 June 2014 and the consolidated financial statements are for the Company and its subsidiaries (Group or Consolidated entity). The Group is a for-profit entity.

This general purpose financial report was authorised by the Board of Directors for issue on 19 August 2014.

A. STATEMENT OF COMPLIANCE

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards (AASB) adopted by the Australian Accounting Standards Board, other authoritative pronouncements of the Australian Accounting Standards Board and the ASX Listing Rules.

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board (IASB). IFRS forms the basis of the AASBs. This financial report of the Consolidated entity complies with IFRS.

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

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

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

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

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding longer than 12 months is included within the relevant note to the financial statements.

I. Australian Accounting Standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting year, except for AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2018	B
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2012-3	Amendments to Australian Accounting Standards arising from AASB 132 - Offsetting Financial Assets and Financial Liabilities	1 January 2014	A
AASB 2012-6	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	1 January 2015	A
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	A
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	1 January 2014	A
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part B	1 January 2014	A
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part C	1 January 2018	A
IFRS 15	Revenue from contracts with customers	1 January 2017	B
AASB 2014-1	Amendments to Australian Accounting Standards: Part A - C	1 July 2014	A
AASB 2014-1	Amendments to Australian Accounting Standards: Part E	1 January 2018	A

TABLE NOTE

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

B These changes may have a financial impact. The financial impact will be determined when the standard is issued.

II. Changes in accounting policies

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

TITLE	DESCRIPTION
AASB 10	Consolidated Financial Statements
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits
AASB 127	Separate Financial Statements
AASB 128	Investments in Associates and Joint Ventures
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13
AASB 2011-10	Amendments to Australian Accounting Standards arising from AASB 119
AASB 2012-2	Amendments to Australian Accounting Standards arising from AASB 7 - Disclosures on Offsetting Financial Assets and Financial Liabilities
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
AASB 2012-9	Amendments to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039
AASB 2012-10	Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part A

Under AASB 10 Consolidated Financial Statements, an investor now controls an investee if and only if the investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Accordingly, the Group revised its accounting policy. This change did not result in a change in entities controlled by the Group during the year.

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

The Group has early adopted AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets. This standard has no financial impact and impacts only disclosures.

III. Rounding

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

C. PRINCIPLES OF CONSOLIDATION

I. Subsidiaries

Consolidation is the incorporation of the assets and liabilities of the Parent and all subsidiaries as at the reporting date and the results of the Parent and all subsidiaries for the year then ended as if they had operated as a single entity. The balances and effects of intragroup transactions are eliminated from the consolidation. Subsidiaries are those entities controlled by the Parent. An investor controls an investee if and only if the investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Where an entity either began or ceased to be controlled during a financial reporting year, the results are included only from the date control commenced or up to the date control ceased.

The financial information of all subsidiaries is prepared for consolidation for the same reporting year as the Parent, using consistent accounting policies. The financial statements of entities operating outside Australia that maintain accounting records in accordance with overseas accounting principles are adjusted where necessary to comply with the significant accounting policies of the Consolidated entity.

Where a subsidiary is less than wholly owned, the equity interests held by external parties are presented separately as non-controlling interests on the consolidated balance sheet, except where the subsidiary is a trust or similar entity for which the third party interest is presented separately on the consolidated balance sheet as a liability (this is the case with the IAG Asset Management Wholesale Trusts that are subsidiaries, refer to the details of subsidiaries note).

II. Associates

Associates, those entities over which significant influence is exercised but not joint control, and which are not intended for sale in the near future, are accounted for using the equity accounting method. Significant influence is generally accompanying a shareholding of between 20% and 50% of the voting rights of an entity, but can also arise where less than 20% is held through active involvement and influence of policy decisions affecting the entity. The investment in associates is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and is subsequently adjusted for the post-acquisition change in the investor's share of net assets of the investee. The investor's share of the profit or loss of the investee is included in the profit or loss of the Consolidated entity and disclosed as a separate line in the statement of comprehensive income. Distributions received reduce the carrying amount of the investment and are not included as dividend revenue of the Consolidated entity. Movements in the total equity of the investee that are not recognised in the profit or loss of the investee are recognised directly in equity of the Consolidated entity and disclosed in the statement of changes in equity. The investments are reviewed annually for impairment.

Where an entity either began or ceased to be an associate during the current financial reporting year, the investment is equity accounted from the date significant influence commenced or up to the date significant influence ceased.

The financial statements of associates are adjusted where necessary to comply with the significant accounting policies of the Consolidated entity.

When the investor's share of losses exceeds its interest in the investee, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the investor has incurred obligations or made payments, on behalf of the investee.

III. Joint arrangement

A joint arrangement (joint operation or a joint venture) exists where parties are bound by a contractual arrangement, giving two or more of the parties joint control of the arrangement and decisions about the relevant activities require unanimous consent of the parties that control the arrangement collectively.

Joint control is assessed by considering rights and obligations from the contractual arrangement, as well as arrangement structure, legal form and terms agreed. The investment in joint ventures is equity accounted from the date joint control commences during a financial period.

SIGNIFICANT ACCOUNTING POLICIES RELATED TO GENERAL INSURANCE CONTRACTS

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled. Insurance contracts that meet the definition of a financial guarantee contract are accounted for as insurance contracts. This means that all of the general insurance products are accounted for in the same manner.

D. PREMIUM REVENUE

Premium revenue comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts. Premium includes amounts collected for levies and charges for which the amount to be paid by the insurer does not depend on the amounts collected, such as for fire services levies in Australia, but excludes stamp duties and taxes collected on behalf of third parties, including the goods and services tax (GST) in Australia. Premium is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment.

E. OUTWARDS REINSURANCE

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense on the balance sheet at the reporting date.

F. CLAIMS

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on the advice of/valuations performed by, or under the direction of, the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting year in which the estimates are changed.

G. REINSURANCE AND OTHER RECOVERIES

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income. Reinsurance and other recoveries receivable include the net GST receivable on outstanding claims and recoveries. Reinsurance recoveries on paid claims are presented as part of trade and other receivables net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet.

H. ACQUISITION COSTS

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business, are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

I. LIABILITY ADEQUACY TEST

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the balance sheet recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised on the balance sheet as an unexpired risk liability.

J. LEVIES AND CHARGES

Levies and charges, for which the amount paid to regulatory bodies does not depend on the amounts collected from policyholders, as is the case with fire services levies in Australia, are expensed on the same basis as the recognition of premium revenue. The portion relating to unearned premium is treated as a prepayment and presented as deferred levies and charges on the balance sheet. A liability for levies and charges payable is recognised on business written to the reporting date. Other levies and charges that are simply collected on behalf of third parties are not recognised as income or expense in profit or loss.

SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES

K. FEE AND OTHER INCOME

Fee based revenue is brought to account on an accruals basis being recognised as revenue on a straight line basis in accordance with the passage of time as the services are provided. Other income is recognised on an accruals basis.

L. LEASES

The majority of leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. The majority of the lease arrangements are entered into as lessee for which the lease payments are recognised as an expense on a straight line basis over the term of the lease. Certain sublease arrangements are entered into as the lessor for which the lease payments are recognised as revenue on a straight line basis over the term of the lease.

Lease incentives relating to the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset. Operating lease incentives received are initially recognised as a liability, are presented as trade and other payables, and are subsequently reduced through recognition in profit or loss as an integral part of the total lease expense (lease payments are allocated between rental expense and reduction of the liability) on a straight line basis over the period of the lease.

M. TAXATION

I. Income tax

Income tax expense for a reporting year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates for each jurisdiction, and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting years.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except in the following circumstances when no deferred tax asset or liability is recognised:

- temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss;
- temporary differences between the carrying amount and tax bases of investments in subsidiaries where it is probable that the differences will not reverse in the foreseeable future; and
- temporary differences relating to the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

II. Tax consolidation

IAG and its Australian resident wholly owned subsidiaries adopted the tax consolidation legislation with effect from 1 July 2002 and are therefore taxed as a single entity from that date. IAG is the head entity within the tax-consolidated group.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts receivable/(payable) from/(to) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by IAG as an equity contribution or distribution.

All entities in the tax-consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly owned entities in the case of a default by the head entity. The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate the Company for any current tax payable assumed.

III. GST

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable. In these circumstances GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. Cash flows are included in the cash flow statement on a gross basis.

N. INVESTMENTS

Investments comprise assets held to back insurance liabilities (also referred to as technical reserves) and assets that represent shareholders' funds. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented risk management strategy. The carrying value of investments is considered identical to the fair value.

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value are recognised as realised or unrealised investment gains or losses in profit or loss. The Group recognises transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

For securities traded in an active market, fair value is determined by reference to quoted mid market price at the current reporting date (bid price applied in the prior reporting date). For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs. The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.

Investment revenue is brought to account on an accruals basis. Revenue on investments in equity securities and property trusts is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

O. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and is subsequently carried at the lower of cost and recoverable amount by the Parent entity. Costs incurred in investigating and evaluating an acquisition up to the point of formal commitment to an acquisition are expensed as incurred. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss which can subsequently be reversed in certain conditions.

Where an additional interest is purchased in an existing subsidiary, the acquisition is treated as a transaction between owners and has no impact on the statement of comprehensive income. Income from these investments, comprising dividends and trust distributions, is brought to account on an accruals basis. Dividend revenue is accrued on the date the dividends are declared.

P. INVESTMENT IN JOINT VENTURES AND ASSOCIATES

Investment in joint arrangements and associates is initially recognised at cost (fair value of consideration provided plus directly attributable costs) by the entity holding the ownership interest, including attributed goodwill, and is subsequently carried in the entity's financial statements at the lower of cost and recoverable amount.

Q. DISCONTINUED OPERATION

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group (i.e. a cash generating unit) and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

If an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation has been discontinued from the start of the comparative year.

R. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand available on demand and deposits held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount. For the purpose of the cash flow statement, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of any bank overdraft.

S. DERIVATIVES

The Group uses a variety of derivatives to manage various risks. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

I. Derivatives without hedge accounting applied

Derivatives are initially recognised at trade date at fair value excluding transaction costs. The fair value is determined by reference to current market quotes or generally accepted valuation principles.

Transaction costs for purchases of derivatives are expensed as incurred.

For derivatives that do not qualify for hedge accounting, the changes in fair value are immediately recognised in profit or loss. The derivatives in relation to the investment operations are presented together with the underlying investments while the derivatives in relation to corporate treasury transactions are presented as receivables when the fair value is positive, or as payables when the fair value is negative.

Where derivatives qualify for hedge accounting, the treatment is set out in section II.

II. Hedge accounting

Hedge accounting may be applied to derivatives designated as hedging instruments provided certain criteria are met. Certain transactions have been designated as the following:

- Fair value hedge: hedge of a change in fair value of an asset or liability or an unrecognised firm commitment; or
- Cash flow hedge: hedge of the exposure to the variability of cash flow attributable to a particular risk associated with a recognised asset or liability, or an unrecognised firm commitment; or
- Net investment hedge: hedge of a net investment in a foreign operation.

To qualify for hedge accounting, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective. Actual effectiveness in the range of 80% to 125% must also be demonstrated on an ongoing basis. When it is determined that a derivative for which hedge accounting has been designated is not (or ceases to be) effective, hedge accounting is discontinued prospectively from the date of ineffectiveness.

a. FAIR VALUE HEDGE
Changes in the fair value of the hedging instrument are recognised in profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b. CASH FLOW HEDGE
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in reserves as part of equity. Any gain or loss relating to an ineffective portion is immediately recognised in profit or loss.

When the forecast transaction that is hedged results in the recognition of a financial asset or a financial liability, the associated gains and losses that had been deferred in equity are transferred into profit or loss in the same period or periods when the hedged item affects profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that had been deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

c. NET INVESTMENT HEDGE
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity while the gain or loss relating to the ineffective portion is immediately recognised in profit or loss. Gains and losses accumulated in the equity reserve are recognised in profit or loss upon the disposal of the foreign operation.

III. Embedded derivatives
Derivatives embedded in other financial instruments or other non-financial host contracts are treated separately when their risks and characteristics are not closely related to those of the host contract. Where an embedded derivative is required to be separated, it is measured at fair value and change in the fair value is recognised in profit or loss.

T. TRADE AND OTHER RECEIVABLES
Trade and other receivables are stated at the amounts to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in profit or loss. Debts which are known to be uncollectible are written off.

U. PROPERTY AND EQUIPMENT
Property and equipment is initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

All items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment charges. Depreciation is calculated using the straight line method to allocate the cost of assets less any residual value over the estimated useful economic life.

The carrying amount of property and equipment is reviewed at each reporting date. If any impairment is indicated or exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where an existing carrying value exceeds the recoverable amount, the difference is recognised in profit or loss.

The net gain or loss on disposal of property and equipment is recognised in profit or loss and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

V. BUSINESS COMBINATIONS
Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition is the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the date of exchange. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. The Group measures any non-controlling interest, on a transaction-by-transaction basis, either at fair value or at the non-controlling interest’s proportionate share of the fair value of the identifiable assets and liabilities.

Acquisition related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Where settlement of any part of cash consideration is contingent upon some future event or circumstance, the estimated amounts payable in the future are discounted to their present value at the date of exchange. When the contingent consideration is classified as a liability, the impact on any subsequent changes in fair value is recognised as profit or loss in the statement of comprehensive income.

Where the initial accounting for a business combination is determined only provisionally by the first reporting date after acquisition date, the business combination is accounted for using those provisional values. Any subsequent adjustments to those provisional values are recognised within 12 months of the acquisition date and are applied effective from the acquisition date.

W. INTANGIBLE ASSETS

I. Acquired intangible assets

Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the period in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively.

The carrying amount of intangible assets with finite useful lives is reviewed at each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where the recoverable amount is determined by the value in use, the projected net cash flows are discounted using a pre-tax discount rate. For assets with indefinite useful lives, the recoverability of the carrying value of the assets is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

II. Software development expenditure

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the balance sheet and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred.

The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project. The recoverability of the carrying amount of the asset is assessed in the same manner as for acquired intangible assets with finite useful lives.

X. GOODWILL

Goodwill is initially measured as the excess of the purchase consideration over the fair value of the net identifiable assets and liabilities acquired and subsequently presented net of any impairment charges. Goodwill arising on acquisitions prior to 1 July 2004 has been carried forward on the basis of its deemed cost being the net carrying amount as at that date.

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units (CGUs). CGUs are determined principally based on how goodwill is monitored by management. The carrying value of goodwill is tested for impairment at each reporting date.

Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss and cannot subsequently be reversed. The recoverable amount of goodwill is determined by the present value of the estimated future cash flows by using a pre-tax discount rate that reflects current market assessment of the risks specific to the CGUs.

At the date of disposal of a business, attributed goodwill is used to calculate the gain or loss on disposal.

Y. TRADE AND OTHER PAYABLES

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. The amounts are discounted where the effect of the time value of money is material.

Z. RESTRUCTURING PROVISION

A restructuring provision is recognised for the expected costs associated with restructuring where there is a detailed formal plan for restructure and a valid expectation has been raised in those persons expected to be affected. The provision is based on the direct expenditure to be incurred which is both directly and necessarily caused by the restructuring, including termination benefits, decommissioning of information technology systems and exiting surplus premises and does not include costs associated with ongoing activities. The adequacy of the provision is reviewed regularly and adjusted if required. Revisions in the estimated amount of a restructuring provision are reported in the period in which the revision in the estimate occurs. The provision is discounted using a pre-tax discount rate where the effect of the time value of money is material. Where discounting is applied, the increase in the provision due to the passage of time is recognised as a finance cost.

AA. LEASE PROVISION

Certain operating leases for property require that the land and/or building be returned to the lessor in its original condition, however, the related operating lease payments do not include an element for the cost this will involve. The present value of the estimated future cost for the plant and equipment to be removed and the premises to be returned to the lessor in its original condition are recognised as a lease provision when the relevant alterations are made to the premises. The costs are capitalised as part of the cost of plant and equipment and then depreciated over the useful lives of the assets (refer to section U of the summary of significant accounting policies note).

AB. EMPLOYEE BENEFITS

I. Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries (including bonuses), annual leave and sick leave are recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when these liabilities are settled, including on-costs. A liability for sick leave is considered to exist only when it is probable that sick leave taken in the future will be greater than entitlements that will accrue in the future.

II. Long service leave
A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using risk free interest rates, best represented by national government guaranteed securities which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are incorporated in the measurement.

III. Share based incentive arrangements
Share based remuneration is provided in different forms to eligible employees and IAG Directors. All of the arrangements are equity settled share based payments.

The fair value at grant date (the date at which the employer and the employee have a shared understanding of the terms and conditions of the arrangement) is determined for each equity settled share based payment using a valuation model which excludes the impact of any non-market vesting conditions. This fair value does not change over the life of the instrument. At each reporting date during the vesting period (the period during which related employment services are provided) and upon the final vesting or expiry of the equity instruments, the total accumulated expense is revised based on the fair value at grant date and the latest estimate of the number of equity instruments that are expected to vest based on non-market vesting conditions only and taking into account the expired portion of the vesting period. Changes in the total accumulated expense from the previous reporting date are recognised in profit or loss with a corresponding movement in an equity reserve. Upon exercise of the relevant instruments, the balance of the share based remuneration reserve relating to those instruments is transferred within equity.

The different treatment of market and non-market vesting conditions means that if an equity instrument does not vest because a participant ceases relevant employment then the accumulated expense charged in relation to that participant is reversed, but if an equity instrument does not vest only because a market condition is not met, the expense is not reversed.

To satisfy obligations under the various share based remuneration plans, shares are generally bought on market at or near grant date of the relevant arrangement and held in trust. Shares held in trust that are controlled for accounting purposes are treated as treasury shares held in trust (refer to section AH of the summary of significant accounting policies note).

IV. Superannuation
For defined contribution superannuation plans, obligations for contributions are recognised in profit or loss as they become payable. For defined benefit superannuation plans, the net financial position of the plans is recognised on the balance sheet and the movement in the net financial position is recognised in profit or loss, except for remeasurements of defined benefit plans (experience adjustments and changes in actuarial assumptions), which are recognised directly in retained earnings.

AC. INTEREST BEARING LIABILITIES AND FINANCE COSTS
Interest bearing liabilities are initially recognised at fair value less transaction costs that are directly attributable to the transaction. After initial recognition the liabilities are carried at amortised cost using the effective interest method.

Finance costs include interest, which is accrued at the contracted rate and included in payables, amortisation of transaction costs which are capitalised, presented together with the borrowings, and amortised over the life of the borrowings or a shorter period if appropriate, and amortisation of discounts or premiums (the difference between the original proceeds, net of transaction costs, and the settlement or redemption value of borrowings) over the term of the liabilities. Where interest payments are subject to hedge accounting, they are recognised as finance costs net of any effect of the hedge.

AD. FOREIGN CURRENCY
I. Functional and presentation currency
Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in Australian dollars, which is the presentation currency of the Company.

II. Translation of foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

III. Translation of the financial results of foreign operations
The financial position and performance of foreign operations with a functional currency other than Australian dollars are translated into the presentation currency for inclusion in the consolidated financial statements. The assets and liabilities are translated using reporting date exchange rates while equity items are translated using historical rates. Items from the statement of comprehensive income are translated using weighted average rates for the reporting year. Exchange differences arising from the translations are recorded directly in equity in the foreign currency translation reserve. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated using reporting date exchange rates.

On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the foreign currency translation reserve relating to that foreign operation is recognised in profit or loss.

IV. Principal exchange rates used

The reporting date exchange rates for balance sheet translation and the annual average daily exchange rates for statement of comprehensive income and cash flow statement translation to Australian dollars are provided here for selected currencies as an indication of the rates used for the current year.

	BALANCE SHEET		STATEMENT OF COMPREHENSIVE INCOME AND CASH FLOW STATEMENT	
	2014	2013	**2014**	2013
New Zealand dollar	**0.92866**	0.84740	**0.90485**	0.80055
British pound	**1.81505**	1.66464	**1.77299**	1.52763
Thai baht	**0.03270**	0.03514	**0.03398**	0.03224
United States dollar	**1.06078**	1.09433	**1.08950**	0.97763
Malaysian ringgit	**0.33036**	0.34636	**0.33574**	0.31831

AE. PROVISION FOR DIVIDENDS

Provision for dividends is made in respect of ordinary shares where the dividends are declared on or before the reporting date but have not yet been distributed at that date.

AF. EARNINGS PER SHARE

I. Basic earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to shareholders of the Parent by the weighted average number of shares of the Parent on issue during the reporting year, net of treasury shares held in trust.

II. Diluted earnings per share

Diluted earnings per share is determined by dividing the profit or loss attributable to shareholders of the Parent used in the calculation of basic earnings per share, adjusted for relevant costs associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

AG. SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

AH. TREASURY SHARES HELD IN TRUST

Ordinary shares of IAG that are controlled for accounting purposes by share based remuneration trusts that are subsidiaries of the Consolidated entity, are presented on the balance sheet as treasury shares held in trust. The shares are measured at cost (total amount paid to acquire the shares including directly attributable costs) and are presented as a deduction from equity until they are otherwise dealt with. No gain or loss is recognised in profit or loss on the sale, cancellation or reissue of the shares. The shares are derecognised as treasury shares held in trust when the shares vest or are released to the participant.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- insurance contracts related:
  - claims, refer to note 10;
  - reinsurance and other recoveries on outstanding claims, refer to note 11; and
  - liability adequacy test, refer to note 13.B.

  The estimation process of the gross cash flows for the 2011 financial year natural catastrophe events in New Zealand is conducted in a manner consistent with the preparation of accounts as described in note 1, but is subject to a high degree of uncertainty owing to the unique nature of the events including the allocation of costs between the events for policies affected by multiple events, the decision process surrounding the zoning of land for rebuilding, the interaction with the EQC and uncertainty relating to IAG's share of claim costs and the estimated cost of the event relative to the size of the New Zealand economy.

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

- other:
  - intangible assets and goodwill impairment testing, refer to notes 16 and 17;
  - acquired intangible assets' initial measurement and determination of useful life, refer to notes 16 and 23;
  - income tax and related assets and liabilities, refer to note 6;
  - provisional accounting of business combinations, refer note 23;
  - share based remuneration, refer to note 28; and
  - defined benefit superannuation arrangements, refer to note 29.

NOTE 3. RISK MANAGEMENT

A. RISK MANAGEMENT FRAMEWORK

The Group Chief Risk Officer oversees risk management across the Group. IAG has a Group Risk and Governance function responsible for the development of IAG's risk management framework, policies and standards. Divisional Risk & Compliance teams deploy the risk management framework within their division. Application of the risk management framework provides reasonable assurance the Group's material risks are prudently and soundly managed. IAG acknowledges all business activity entails risk. The Group mitigates this by focusing on the management of risk, not the avoidance of risk. The framework is outlined in a written Risk Management Strategy (RMS), which is in accordance with the prudential standards issued by APRA.

The RMS:

- is a high level, strategic document that articulates the risk management framework;
- references other key documents and elements of the risk management framework; and
- may be a key input into how regulators understand and assess the approach to risk management.

Compliance with the RMS is incorporated into the twice yearly declarations provided by Executives and senior management to the Board.

The RMS includes clearly defined managerial responsibilities, details of the Group level risk management related policies and the key processes to identify, assess, monitor, report on and mitigate material risk. Group policies for the management of risk are applied by all controlled entities (unless exempted) consistently across the Group and takes into consideration local circumstances in non-Australian jurisdictions.

The risk management framework is regularly reviewed so it remains appropriate and effective. The Group has an internal audit function which reviews various aspects of the risk management framework application in the business divisions. Standard & Poor's (S&P) currently views the Group's enterprise risk management as 'strong'.

The RMS is updated annually or as required and is approved by the Board, and resubmitted to APRA subsequent to material change. A three year rolling business plan is also submitted to APRA after each annual review or following material change.

The risk framework includes the following documents:

- Risk Management Strategy (RMS) – IAG's strategy for managing risk and key elements of the risk management framework.
- Reinsurance Management Strategy (REMS) - comprises key elements of the reinsurance management framework, processes for setting and monitoring the insurance concentration risk capital (ICRC), processes for selecting, implementing, monitoring and reviewing reinsurance arrangements and identification, roles and responsibilities of those charged with managerial responsibility for the reinsurance management framework. The REMS is in accordance with the prudential standards issued by APRA. The REMS is updated annually and approved by the Board.
- Group Risk Appetite Statement – articulates the levels, boundaries and nature of risk the Board is willing to accept in pursuit of IAG's strategic objectives.
- Internal Capital Adequacy Assessment Process (ICAAP) – the ICAAP Summary Statement is a component of IAG's risk management framework summarising the Group's risk assessment and processes for capital management, describing the strategy for maintaining adequate capital over time. The ICAAP Annual Report is an annual report to the Board on the operation of the ICAAP over the prior 12 months and a forward looking view. IAG's Risk Management Framework includes a range of capital management initiatives and documents. Refer to the capital management note for further details.

B. RISK MANAGEMENT OVERVIEW

The risk management arrangements outlined apply to Group entities except the Wesfarmers entities acquired on 30 June 2014. An overview of IAG's risk management arrangements is included in the Directors' Report, with the governance arrangements and forums used to manage risk detailed further in the Corporate Governance section.

As ASIC and APRA regulated entities, the acquired Wesfarmers business was required to have risk management arrangements that were appropriate for the scope, scale and complexity of their activities. Wesfarmers' risk management arrangements will be transitioned into IAG arrangements from 1 July 2014 as part of the integration of the Wesfarmers business.

Where appropriate, the following exposures and positions include both IAG and the acquired Wesfarmers entities' balances. As required, IAG methodology has been applied to determine disclosed positions and exposures.

IAG adopts an enterprise approach to risk arrangements, with five risk categories identified as follows:

RISK CATEGORIES	DEFINITION OF RISK
Strategic risk	Strategic risk may arise from the following sub-categories: ■ Strategic Objectives: flawed strategy or the failure to meet strategic initiatives due to capital constraints, divisional strategic misalignment, technology and other resource inhibitors; ■ Poor Business Decisions: failure to complete an appropriately detailed due diligence of the reasonably available information before making business decisions, or failing to take the reasonably available information into account; ■ Business Environment Changes: changes in the business environment or lack of responsiveness to changes in the business environment; and ■ Group Contagion Risk: the potential impact of risk events, of any nature, arising in or from membership of the Group.
Insurance risk	Insurance risk may arise from the following sub-categories: ■ Product Pricing: inadequate or inappropriate product pricing; ■ Product Design: product defects due to inadequate product design, variation, delivery or maintenance; ■ Reserving: inadequate or inappropriate reserving including unforeseen, unknown or unintended liabilities that may eventuate; ■ Claims Management: inadequate or inappropriate claims management including overpayment, failure to collect recoveries, fraudulent misrepresentation or staff operating outside of their authority; ■ Underwriting: inadequate or inappropriate underwriting. For example, failure to comply with the underwriting process, including staff operating outside their authority; and ■ Insurance Concentration Risk: adverse concentration exposure. For example, location catastrophe exposure, underwriting segment factor, industry or distribution channel.
Reinsurance risk	Reinsurance risk may arise from the following sub-categories: ■ Coverage: insufficient or inappropriate reinsurance coverage arising as a result of: – incorrect use of models used to calculate amount of cover required; – the cover provided by the reinsurance program(s) does not align with original underwriting exposures; and – latent/emerging exposures. ■ Underwriting/Pricing: inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives; ■ Claims Management: inadequate or inappropriate reinsurance recovery management; ■ Contract Terms: reinsurance arrangements not legally binding or poor management of reinsurance recoveries; and ■ Reinsurance Concentration Risk: over-exposure to insurance risks based on factors such as geographical location, types of cover, industry types or a high reliance on a number or reinsurers. The credit counterparty concentration risk to reinsurers is covered under the financial risk – credit risk category.
Financial risk	Financial risk may arise from the following sub-categories: ■ Liquidity Management: insufficient cash resources to meet financial obligations as and when they fall due (without affecting either the daily operations or the financial condition of the Group); ■ Market Risk: – asset concentration: risk of over-exposure to a particular asset class outside the Strategic Asset Allocation or the limits in the individual Investment Management Agreements; – foreign exchange: adverse exchange rate movements in unhedged foreign exchange exposures; – asset prices: the risk an asset's value will negatively change due to a change in the absolute level of its market price; – interest rates: the risk an investment's value will negatively change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship; and – derivative exposures: movements in underlying physical positions not being matched by (opposite) movements in the value of the derivative positions. ■ Credit Risk: the risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. These counterparties include investments, reinsurers and premium debtors; and ■ Capital Management Risk: failure to maintain adequate regulatory capital to meet APRA's capital requirements or the Group's internal capital target.

Operational risk	Operational risk may arise from the following sub-categories: ▪ Fraud: any act or omission, by any person, made with dishonest or potentially illegal intent, to obtain a benefit or advantage, for one's self or any other person. ▪ Management, Staff Practices & Safety: – risks related to workforce planning; – behavioural risks; and – the risk of illness, injury, psychological or physical harm to persons at IAG sites or whilst engaging in work activities. ▪ Supply & Distribution Chain: a service provider, outsourcer, internal distribution channel disruption, non-performance or non-adherence to service level agreements that causes an impact on IAG's business operations or its ability to manage risk effectively; ▪ Project & Change Management: failure to deliver the expected benefit of an initiative, or inadequate implementation of a project initiative; ▪ Process Management: human or system failure to deliver intended objectives; ▪ Business Continuity Management: any event that disrupts IAG's business operations and/or performance; ▪ Compliance: failure to identify, interpret or comply with regulatory or legislative requirements; and ▪ System Integrity / Security & Information Management: inadequate system design or capabilities to maintain business functionality, information security or information management.

C. RISK MANAGEMENT CATEGORIES AND RISK MITIGATION

I. Strategic risk

Strategic risk is managed by the IAG Executive team with Board oversight. Key elements in management of strategy and strategic risk include the strategic planning program and associated oversight arrangements. Progress against strategic priorities is regularly considered. Strategic risks are included in IAG's Enterprise Risk Profile as appropriate.

II. Insurance risk

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Consolidated entity is exposed to this risk as the price for a contract must be set before the losses relating to the product are known. As such, the insurance business involves inherent uncertainty. The Consolidated entity also faces other risks relating to the conduct of the general insurance business including financial risks and capital risks (refer to the capital management note).

A fundamental part of the Group's overall risk management approach is the effective governance and management of the risks that impact the amount, timing and certainty of cash flows arising from insurance contracts.

Insurance activities primarily involve the underwriting of risks and the management of claims. A disciplined approach to risk management is adopted rather than a premium volume or market share orientated approach. IAG believes this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders, including policyholders, lenders and shareholders.

The level of risk accepted by IAG is formally documented in its Insurance Business Licences. Each operating division has an insurance licence. The licences are reviewed annually or more frequently if required.

a. INSURANCE PROCESSES

The key processes to mitigate insurance risk include the following:

i. Acceptance and pricing of risk

The underwriting of large numbers of less than fully correlated individual risks, across a range of classes of insurance businesses in different regions, reduces the variability in overall claims experience over time. Business divisions are set underwriting criteria covering the types of risks they are licenced to underwrite. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. Management information systems are maintained that provide up to date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including plain language policy terms, to ensure there is no misalignment between policyholders' perceived payment when a policy is initially sold and actual payment when a claim is made.

Statistical models that combine historical and projected data are used to calculate premiums and monitor claims patterns for each class of business. The data used includes historical pricing and claims analysis for each class of business as well as current developments in the respective markets and classes of business. All data used is subject to rigorous verification and reconciliation processes. The models incorporate consideration of prevailing market conditions.

ii. Claims management and provisioning
Initial claims determination is managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge. It is the Group's intention to respond to and settle all genuine claims quickly whenever possible and to pay claims fairly, based on policyholders' full entitlements.

Claims provisions are established using actuarial valuation models and include a risk margin for uncertainty (refer to the claims note).

iii. Reinsurance
Refer to reinsurance risk section III below for further details.

b. CONCENTRATIONS OF INSURANCE RISK
The exposure to concentrations of insurance risk is mitigated by a portfolio diversified into many classes of business across different regions and by the utilisation of reinsurance.

Concentration risk is particularly relevant in the case of catastrophes, usually natural disasters, which generally result in a concentration of affected policyholders over and above the norm and which constitutes the largest individual potential financial loss. Catastrophe losses are an inherent risk of the general insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in the results of operations and financial position. Catastrophes are caused by various natural events including earthquakes, bushfires, hailstorms, tropical storms and high winds. The Group is also exposed to certain large human-made catastrophic events such as industrial accidents and building collapses. The nature and level of catastrophes in any period cannot be predicted accurately but can be estimated through the utilisation of predictive models. The Group actively limits the aggregate insurance exposure to catastrophe losses in regions that are subject to high levels of natural catastrophes.

Each year, the Group sets its tolerance for concentration risk and purchases reinsurance in excess of these tolerances. Various models are used to estimate the impact of different potential natural disasters and other catastrophes. The tolerance for concentration risk is used to determine the ICRC which is the maximum net exposure to insurance risk determined appropriate for any single event with a given probability. The selected ICRC is also determined based on the cost of purchasing the reinsurance and capital efficiency.

The tables below demonstrate the diversity of the Group's operations by both region (noting that the insurance risks underwritten in Australia are written in all states and territories) and product, demonstrating the limited exposure to additional risks associated with long-tail issues of business. The table below provides an analysis of gross written premium by region for continuing operations:

	CONSOLIDATED	
	2014	2013
	%	%
Australia	**78**	80
New Zealand	**19**	17
Asia	**3**	3
	100	100

The following table provides a percentage analysis of gross written premium by product for continuing operations:

Motor	**32**	33
Home	**27**	27
Short-tail commercial	**19**	19
CTP (motor liability)	**9**	10
Liability	**5**	4
Other short-tail	**4**	4
Workers' compensation	**4**	3
	100	100

Specific processes for monitoring identified key concentrations are set out below.

RISK	SOURCE OF CONCENTRATION	RISK MANAGEMENT MEASURES
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Multiple liability retentions being involved in the same event	Response by a multitude of policies to the one event	Purchase of reinsurance clash protection

III. Reinsurance risk

Reinsurance is used to limit exposure to large single claims as well as an accumulation of claims that arise from the same or similar events.

Risks underwritten are also reinsured in order to stabilise earnings and protect capital resources. Each subsidiary that is an insurer has its own reinsurance program and determines its own risk tolerances, subject to principles set out in the REMS. To facilitate the reinsurance process, manage counter party exposure and to create economies of scale, the Group has established a captive reinsurance operation comprising companies located in Australia, Singapore and Labuan. This operation acts as the reinsurer for the Group by being the main buyer of the Group's outwards reinsurance program. A key responsibility of the reinsurance operation is to manage reinsurance and earnings volatility and the Group's exposure to catastrophe risk. The operation retains a portion of the intercompany business it assumes and retrocedes (passes on) the remainder to external reinsurers. The REMS outlines the Group's reinsurance retention for catastrophe must not exceed 4% of net earned premium.

While the majority of business ceded by the Consolidated entity's subsidiaries is reinsured with the Group's captive reinsurance operation, individual business units do purchase additional reinsurance protection outside the Group. This generally relates to facultative reinsurance covers.

The use of reinsurance introduces credit risk. The management of reinsurance includes the monitoring of reinsurers' credit risk and controls the exposure to reinsurance counterparty default. Refer to the financial risk section of this note for further details.

a. CURRENT REINSURANCE PROGRAM

The reinsurance operation purchases reinsurance on behalf of Group entities to cover a return period of at least APRA's minimum of a 1:200 year event on a single site basis but is authorised to elect to purchase covers up to a 1:250 year event on a whole of portfolio basis. Dynamic financial analysis modelling is used to determine the optimal level at which reinsurance should be purchased for capital efficiency, compared with the cost and benefits of covers available in the market.

The external reinsurance programs consist of a combination of the following reinsurance protection:

- a Group catastrophe cover which is placed in line with the strategy of buying to the level of a 1:250 year event on a modified whole of portfolio basis. The catastrophe program is negotiated on an annual calendar year basis. Covers purchased are dynamic; the ICRC changes as total requirements change and as the reinsurance purchase strategy evolves;
- an aggregate cover which protects against a frequency of attritional event losses in Australia, New Zealand and Asia and operates below the Group catastrophe cover;
- a buy-down arrangement that reduces the cost of a first and second event;
- specific catastrophe protection for the combined Wesfarmers insurance business in Australia and New Zealand, placed in line with the strategy of buying to the level of a 1:250 year event on a modified whole of portfolio basis;
- excess of loss reinsurances which provide 'per risk' protection for retained exposures of the commercial property and engineering businesses in Australia, New Zealand, Thailand, Malaysia and Vietnam;
- excess of loss reinsurance for all casualty portfolios including CTP, public liability, workers' compensation and home owners warranty products; and
- excess of loss reinsurance for all marine portfolios.

b. CHANGES DURING THE YEAR

The limit of catastrophe cover purchased was increased to $5.6 billion. Should a loss event occur that is greater than $5.6 billion, the Group could potentially incur a net loss greater than the ICRC. The Group holds capital to mitigate the impact of this possibility.

At 30 June 2014, the Group ICRC for a first event arising from a catastrophe event was $225 million.

IV. Financial Risk

Financial risk focuses on the unpredictability of financial markets and potential adverse effects on financial performance. Key aspects of the processes established to mitigate financial risks include:

- having an Asset and Liability Committee comprising key Executives with relevant oversight responsibilities that meets on a regular basis;
- monthly stress testing undertaken to determine the impact of adverse market movements and the impact of any derivative positions;
- maintenance of an approved Group Credit Risk Policy and Group Foreign Exchange Policy which are reviewed regularly;
- capital management activities. For further details refer to the capital management note; and
- implementation of a Derivatives Risk Management Statement that considers the controls in the use of derivatives and sets out the permissible use of derivatives in relation to investment strategies.

MARKET RISK

Market risk is the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices.

a. FOREIGN EXCHANGE RISK

i. Nature of the risk and how managed

Foreign exchange risk is the risk of loss arising from adverse exchange rate movements in unhedged foreign exchange exposures. The Consolidated entity operates internationally and so is exposed to foreign exchange risk from various activities conducted in the normal course of business. Foreign exchange exposure is a centrally managed risk, with hedging coordinated by the Group's Corporate Office. Refer to the derivatives note for further details on the hedging arrangements used to manage foreign exchange risk.

The key foreign exchange risk exposures relate to the following:

- Investment of shareholders' funds - the investment of shareholders' funds in assets denominated in currencies different to the functional currency. Assets held to back insurance liabilities are held in the same currency as the related insurance liabilities, mitigating any net foreign exchange exposure.
- Interest bearing liabilities - foreign currency denominated interest bearing liabilities are generally of a capital nature. Some are designated as hedging instruments to manage the foreign exchange risk associated with investments in foreign operations.
- Investment in foreign operations - net investment in foreign operations through the translation of the financial position and performance of foreign operations that have a functional currency other than the Australian dollar with the key currencies being New Zealand dollars, Indian rupees, Malaysian ringgit, Chinese renminbi, Vietnamese dong and Thai baht.

ii. Foreign exchange risk exposure

The financial impact from exposure to foreign exchange risk to the Group is primarily driven by:

- translation of foreign currency transactions - relating mainly to investments, directly recognised in profit or loss;
- translation of the financial performance of foreign operations - recognised directly in profit or loss; and
- translation of the financial position of foreign operations - recognised directly in equity in the foreign currency translation reserve.

iii. Sensitivity

The following tables provide information regarding the exposure of the Consolidated entity to foreign exchange risk. The sensitivity analysis provided in the following tables demonstrates the effect of a change in one key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among the currencies, but rather show isolated exchange rate movements. The sensitivity analysis does not take into consideration that the assets and liabilities are actively managed and assumes no action by management in response to movements in the factor. Additionally, the financial position may vary at the time that any actual market movement occurs.

The impact on the measurement of various financial instruments held at reporting date of an instantaneous 10% depreciation of the Australian dollar at reporting date compared with selected currencies, on profit after tax and equity, net of related derivatives, is provided in the table below. An appreciation of the Australian dollar would predominantly have the opposite impact.

	CONSOLIDATED	
	2014	2013
	$m	$m
	Impact to profit	Impact to profit
Shareholders' funds including related derivatives		
United States dollar	**2**	4
	2	4

	CONSOLIDATED	
	2014	2013
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**74**	22
Malaysian ringgit	**16**	15
British pounds	**-**	(1)
Other currencies where considered significant	**15**	12
	105	48

b. INTEREST RATE RISK

i. Nature of the risks and how managed

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities are exposed to changes in market value derived from mark-to-market revaluations. Financial assets and liabilities with floating interest rates create exposure to cash flow volatility.

Interest rate risk arises primarily from investments in interest bearing securities. Interest bearing liabilities are exposed to interest rate risk but as they are measured at amortised cost and are not traded they therefore do not expose the Group to fair value interest rate risk. In addition, interest bearing liabilities bearing fixed interest rates (subject to some reset conditions) reduce the Group's exposure to cash flow interest rate risk. Movements in market interest rates therefore impact the price of the securities (and hence their fair value measurement) however have a limited effect on the contractual cash flows of the securities.

Exposure to interest rate risk is monitored through several measures that include value-at-risk analysis, position limits, scenario testing, stress testing and managed by asset and liability matching using measures such as duration. Derivatives are used to manage interest rate risk. The interest rate risk arising from money market securities is managed using interest rate swaps and futures. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values, refer to the derivatives note.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to the Group's policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities.

ii. Sensitivity

The sensitivity analysis provided in the following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among variables, but rather show isolated interest rate movements.

The investments in interest bearing securities are recognised on the balance sheet at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit or loss. The impact on the measurement of the interest bearing securities held at reporting date of a change in interest rates by +1% or -1% on profit before tax, net of related derivatives, is shown in the following table:

		CONSOLIDATED	
		2014	2013
		$m	$m
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(328)**	(339)
	-1%	**351**	361

The majority of the interest bearing securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments.

c. PRICE RISK

i. Nature of the risk and how managed

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Group has exposure to equity price risk through its investment in equities (both directly and through certain trusts) and the use of equity related derivative contracts.

Exposure to equity price risk is monitored through several measures that include value-at-risk analysis, position limits, scenario testing and stress testing.

For information regarding the notional amounts associated with equity related derivative contracts together with the associated maturity profiles and reporting date fair values, refer to the derivatives note.

ii. Sensitivity

The impact on the measurement of the investments held at reporting date of a change in equity values by +10% or -10% on profit before tax, net of related derivatives, is shown in the table below:

		CONSOLIDATED	
		2014	2013
		$m	$m
Investments – equity and trust securities and related equity derivatives	+10%	**138**	136
	-10%	**(138)**	(134)

All equity investments are measured at fair value through profit or loss and so there is no direct impact to shareholders from those movements.

CREDIT RISK

a. NATURE OF THE RISK AND HOW MANAGED

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Group's credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The Group has a Credit Risk Policy which is approved by the Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the Group.

IAG Group Treasury is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. The Group's credit risk appetite is approved by the Board and covers credit exposure and credit rating. Any new or amended credit risk exposures must be approved in accordance with the Group's approval authority framework.

Concentrations of credit risk exist where a number of counterparties have similar economic characteristics. At reporting date, there are material concentrations of credit risk to the banking sector, in particular the four major banks and also securitised assets in Australia and to reinsurers in relation to the reinsurance recoverables. The level of reinsurance cover entered into with individual reinsurers is sufficiently diversified so as to avoid a concentration charge in the regulatory capital calculation (refer to the capital management note).

b. CREDIT RISK EXPOSURE

i. Premium and reinsurance recoveries on paid claims receivable

The maximum exposure to credit risk as at reporting date is the carrying amount of the receivables on the balance sheet.

An ageing analysis for certain receivables balances is provided below. The other receivables balances have either no overdue amounts or an insignificant portion of overdue amounts. The amounts are aged according to their original due date. Receivables for which repayment terms have been renegotiated represent an insignificant portion of the balances.

					CONSOLIDATED
	NOT OVERDUE			OVERDUE	TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
2014					
Premium receivable	**2,837**	**247**	**236**	**37**	**3,357**
Provision for impairment - specific	**-**	**(3)**	**(5)**	**(20)**	**(28)**
Provision for impairment - collective	**(7)**	**(1)**	**(1)**	**(4)**	**(13)**
Net balance	**2,830**	**243**	**230**	**13**	**3,316**
Reinsurance recoveries on paid claims	**153**	**29**	**14**	**34**	**230**
Net balance	**153**	**29**	**14**	**34**	**230**
2013					
Premium receivable	2,204	295	209	41	2,749
Provision for impairment - specific	-	(1)	(3)	(14)	(18)
Provision for impairment - collective	(7)	(3)	(3)	(6)	(19)
Net balance	2,197	291	203	21	2,712
Reinsurance recoveries on paid claims	48	100	2	37	187
Net balance	48	100	2	37	187

The majority of the premium receivable balance relates to policies which are paid on a monthly instalment basis. It is important to note that the late payment of amounts due under such arrangements allows for the cancellation of the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts. Upon cancellation of a policy the outstanding premium receivable and revenue is reversed.

ii. Reinsurance recoveries receivable on outstanding claims

Reinsurance arrangements mitigate insurance risk but expose the Group to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage and price. The Group has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. The Consolidated entity monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil their obligations to the Consolidated entity under respective existing and future reinsurance contracts. Some of the reinsurers are domiciled outside of the jurisdictions in which the Group operates and so there is the potential for additional risk such as country risk and transfer risk.

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. The financial condition of a reinsurer is a critical deciding factor when entering into a reinsurance agreement. The longer the tail of the direct insurance, the more important is the credit rating of the reinsurer.

It is Group policy to only deal with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collateralisation. Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists. Some of the reinsurance protection is purchased on a 'collateralised' basis, where reinsurers have deposited funds equivalent to their participation in a trust fund. The counterparty credit profile of the catastrophe reinsurance program currently stands with more than 89% of the limit for the 2014 program (2013-87%) with parties rated by Standard & Poor's as A+ or better. For long-tail reinsurance arrangements 100% (2013-100%) of the program is placed with parties rated by Standard & Poor's as A+ or better.

Having reinsurance protection with strong reinsurers also benefits the Consolidated entity in its regulatory capital calculations. The risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower APRA regulatory capital charges.

The following table provides information regarding the credit risk relating to the reinsurance recoveries receivable on the outstanding claims balance, excluding other recoveries, based on Standard & Poor's counterparty credit ratings. These rating allocations relate to balances accumulated from reinsurance programs in place over a number of years and so will not necessarily align with the rating allocations noted above for the current program.

CREDIT RATING	CONSOLIDATED	
	2014	2013
	$m	$m
AAA	**1**	33
AA	**1,142**	1,031
A	**901**	794
BBB and below	**12**	31
Total	**2,056**	1,889

Of these, approximately $862 million (2013-$1,190 million) is secured directly as follows, which reduces the credit risk:
- deposits held in trust: $354 million (2013-$517 million);
- letters of credit: $460 million (2013-$503 million); and
- loss deposits: $48 million (2013-$170 million).

iii. Investments

The Group is exposed to credit risk from investments in third parties where the Group holds debt and similar securities issued by those companies.

The credit risk relating to investments is monitored and assessed and maximum exposures are limited. The maximum exposure to credit risk loss as at reporting date is the carrying amount of the investments on the balance sheet as they are measured at fair value. The investments comprising assets backing insurance liabilities are restricted to investment grade securities.

The following table provides information regarding the credit risk relating to the interest bearing investments based on Standard & Poor's counterparty credit ratings.

CREDIT RATING	CONSOLIDATED	
	2014	2013
	$m	$m
AAA	**5,153**	4,557
AA	**6,727**	5,772
A	**1,001**	1,505
BBB and below	**903**	293
Total	**13,784**	12,127

LIQUIDITY RISK

a. NATURE OF THE RISK AND HOW MANAGED

Liquidity risk is concerned with the risk that sufficient cash resources will not be available to meet payment obligations as they become due (without incurring significant additional costs). The liquidity position is derived from operating cash flows and access to liquidity through related bodies corporate. The Group complies with its liquidity risk management practices, which include the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts expose the Group to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist of government securities and other quality securities which can generally be readily sold or exchanged for cash. The assets are managed so as to broadly match the maturity profile of the expected pattern of claims payments. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including: issuer, industry, geography and credit rating.

An additional source of liquidity risk for the Group relates to interest bearing liabilities. The management of this risk includes the issuance of a range of interest bearing liabilities denominated in different currencies with different maturities.

b. LIQUIDITY RISK EXPOSURE

i. Outstanding claims liability and investments

The breakdown of the fixed term investments are provided by expected maturity. Actual maturities may differ from expected maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

A maturity analysis of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date and the investments that have a fixed term is provided in the table below.

This maturity profile is a key tool used in the investment of assets backing insurance liabilities in accordance with the policy of broadly matching the maturity profile of the assets with the estimated pattern of claims payments.

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	CONSOLIDATED			
	2014	2013	**2014**	2013
	$m	$m	**$m**	$m
Floating interest rate (at call)	**-**	-	**948**	1,136
Within 1 year or less	**3,400**	2,664	**4,042**	2,883
Within 1 to 2 years	**1,559**	1,437	**581**	1,440
Within 2 to 3 years	**1,039**	890	**1,340**	1,047
Within 3 to 4 years	**678**	641	**3,509**	1,523
Within 4 to 5 years	**441**	450	**1,424**	3,125
Over 5 years	**1,589**	1,534	**1,940**	973
Total	**8,706**	7,616	**13,784**	12,127

Timing of future claim payments is inherently uncertain. The table above represents estimated timing.

ii. Interest bearing liabilities

The following table provides information about the residual maturity periods of the interest bearing liabilities of a capital nature based on the contractual maturity dates of undiscounted cash flows. All of the liabilities have call, reset or conversion dates which occur prior to any contractual maturity.

	CARRYING VALUE	MATURITY DATES OF CONTRACTUAL UNDISCOUNTED CASH FLOWS					CONSOLIDATED
		Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Perpetual	Total
	$m	$m	$m	$m	$m	$m	$m
2014							
Tier 1 regulatory capital[a]	**927**	**-**	**-**	**-**	**-**	**927**	**927**
Tier 2 regulatory capital[a]	**834**	**-**	**-**	**-**	**834**	**-**	**834**
Contractual undiscounted interest payments[b]		**96**	**96**	**287**	**-**	**-**	**479**
Total contractual undiscounted payments		**96**	**96**	**287**	**834**	**927**	**2,240**
2013							
Tier 1 regulatory capital[a]	927	-	-	-	-	927	927
Tier 2 regulatory capital[a]	704	-	-	-	704	-	704
Contractual undiscounted interest payments[b]		84	84	252	-	-	420
Total contractual undiscounted payments		84	84	252	704	927	2,051

(a) These liabilities have call, reset or conversion dates upon which certain terms, including the interest or distribution rate, can be changed or the security may be redeemed or converted. The detailed descriptions of the instruments are provided in the interest bearing liabilities note. The classification of Tier 1 and Tier 2 is subject to Life and General Insurance Capital transitional arrangements.

(b) Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable at the reporting date. Interest payments have not been included beyond five years. Reporting date exchange rates have been used for interest projections for liabilities in foreign currencies.

iii. Capital

Refer to the capital management note for further details.

V. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can impact other risk categories. When controls fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group does not aim to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and managing potential risks.

IAG's Group Operational Risk Policy articulates the operational risk management requirements of the Group. It aims to ensure that activities undertaken involving operational risk are measured and managed with appropriate regard to the achievement of IAG's objectives. The Board and Executive team believe an effective, documented and structured approach to operational risk is a key part of the broader risk management framework.

As outlined in the RMS and in the Group Operational Risk Policy, operational risk is to be identified and assessed on an ongoing basis. The Internal Capital Adequacy Assessment Process (ICAAP) summary includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Group's Internal Audit function reviews the effectiveness of processes and procedures surrounding operational risk.

The general insurance operations of the Group are subject to regulatory supervision in the jurisdictions in which they operate. Regulatory frameworks continue to evolve in a number of jurisdictions. The Group works closely with regulators and monitors regulatory developments across its international operations to assess any potential impact on its ongoing ability to meet the various regulatory requirements.

Throughout the current reporting year the Group has conformed with the requirements of its debt agreements, including all financial and non-financial covenants (2013-full conformance).

NOTE 4. ANALYSIS OF INCOME

	CONSOLIDATED	
	2014	2013
	$m	$m
A. GENERAL INSURANCE REVENUE		
Gross written premium	**9,779**	9,498
Movement in unearned premium liability	**(58)**	(363)
Premium revenue	**9,721**	9,135
Reinsurance and other recoveries revenue	**1,857**	818
Reinsurance commission revenue	**51**	-
Total general insurance revenue	**11,629**	9,953
B. INVESTMENT INCOME		
Dividend revenue	**38**	35
Interest revenue	**511**	550
Trust revenue	**16**	16
Total investment revenue	**565**	601
Net change in fair value of investments		
Realised net gains and (losses)	**(2)**	110
Unrealised net gains and (losses)	**296**	(50)
Total investment income	**859**	661
Represented by		
Investment income on assets backing insurance liabilities	**459**	290
Investment income on shareholders' funds	**400**	371
	859	661
C. FEE AND OTHER INCOME		
Fee based revenue	**125**	126
Other income	**74**	49
Total fee and other income	**199**	175
D. SHARE OF NET PROFIT/(LOSS) OF ASSOCIATES	**(8)**	(29)
Total income	**12,679**	10,760

NOTE 5. ANALYSIS OF EXPENSES

	CONSOLIDATED	
	2014	2013
	$m	$m
A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME		
Outwards reinsurance premium expense	**1,077**	817
Claims expense	**7,058**	5,800
Acquisition costs	**1,386**	1,203
Other underwriting expenses	**752**	644
Fire services levies	**216**	331
Investment expenses on assets backing insurance liabilities	**20**	20
Finance costs	**98**	95
Net loss attributable to non-controlling interests in unitholders' funds	**14**	12
Fee based, corporate and other expenses	**256**	245
Total expenses	**10,877**	9,167
B. ANALYSIS OF EXPENSES BY FUNCTION		
General insurance business expenses	**10,509**	8,815
Fee based business expenses	**113**	105
Investment and other expenses	**21**	29
Corporate and administration expenses	**234**	218
Total expenses	**10,877**	9,167

	CONSOLIDATED	
	2014	2013
	$m	$m
C. OTHER ITEMS		
Disclosure of the following items is considered relevant in explaining the results for the financial year:		
I. Depreciation and amortisation		
Acquired intangible assets	**11**	25
Capitalised software development expenditure	**38**	24
Property and equipment	**62**	57
	111	106
II. Employee benefits		
Defined contribution superannuation plans	**99**	90
Defined benefit superannuation plans	**12**	4
Share based remuneration	**25**	22
Salaries and other employee benefits expense	**1,313**	1,186
	1,449	1,302
III. Transfers to provisions charged to profit or loss		
Restructuring provision	**50**	39
IV. Finance costs		
Subordinated term notes interest paid/payable	**26**	20
Convertible preference share distributions paid/payable	**18**	19
Reset exchangeable securities interest paid/payable	**26**	29
Subordinated bonds interest paid/payable	**22**	20
Other debts of an operational nature, interest paid/payable	**1**	2
Amortisation of capitalised transaction costs	**5**	5
	98	95

NOTE 6. INCOME TAX

	CONSOLIDATED	
	2014	2013
	$m	$m
A. INCOME TAX EXPENSE		
Current tax	**427**	486
Deferred tax	**51**	(26)
(Over)/under provided in prior year	**(6)**	(36)
Income tax expense/(credit)	**472**	424
Deferred income tax expense/(credit) included in income tax comprises		
(Increase)/decrease in deferred tax assets	**(20)**	(48)
Increase/(decrease) in deferred tax liabilities	**71**	22
	51	(26)
B. INCOME TAX RECONCILIATION		
The income tax for the financial year differs from the amount calculated on the profit/(loss) before income tax. The differences are reconciled as follows:		
Profit/(loss) from continuing operations for the year before income tax	**1,802**	1,593
Income tax calculated at 30% (2013-30%)	**541**	478
Amounts which are not deductible/(taxable) in calculating taxable income		
Rebateable dividends	**(6)**	(6)
Amortisation and impairment charge on acquired intangible assets and goodwill	**2**	1
Interest on convertible preference shares and reset preference shares	**5**	6
Other	**(64)**	(19)
Income tax expense/(credit) applicable to current year	**478**	460
Adjustment relating to prior year	**(6)**	(36)
Income tax expense/(credit) attributable to profit/(loss) for the year from continuing operations after impact of tax consolidation	**472**	424

	CONSOLIDATED	
	2014	2013
	$m	$m
C. DEFERRED TAX ASSETS		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	**66**	62
Employee benefits	**87**	72
Insurance provisions	**143**	112
Investments	**17**	29
Other	**19**	29
Tax losses	**278**	233
	610	537
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	**16**	24
Other	**6**	-
	632	561
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	**(328)**	(160)
	304	401
II. Reconciliation of movements		
Balance at the beginning of the financial year	**561**	512
Credited/(charged) to profit or loss	**20**	48
Credited/(charged) to equity	**(2)**	(12)
Additions through business acquisition	**40**	-
Transfers	**2**	3
Adjustments relating to prior year	**-**	(8)
Foreign exchange differences	**11**	21
Disposal on sale of business	**-**	(3)
Balance at the end of the financial year prior to set-off	**632**	561

III. Tax losses

The Consolidated entity has an unrecognised deferred tax asset of $14 million (2013-$14 million) in relation to discontinued operation tax losses.

	2014 $m	2013 $m
D. DEFERRED TAX LIABILITIES		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	**108**	78
Intangible assets	**78**	-
Other	**130**	62
	316	140
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	**12**	20
	328	160
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	**(328)**	(160)
	-	-
II. Reconciliation of movements		
Balance at the beginning of the financial year	**160**	148
Charged/(credited) to profit or loss	**71**	22
Charged/(credited) to equity	**(8)**	(22)
Additions through business acquisition	**108**	1
Foreign exchange differences	**(1)**	1
Transfers	**2**	3
Adjustments relating to prior year	**(4)**	7
Balance at the end of the financial year prior to set-off	**328**	160

NOTE 7. SEGMENT REPORTING

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

On 30 June 2014 the Group acquired the Wesfarmers insurance underwriting business in Australia and New Zealand, with the balance sheets of these entities consolidated by the Group from this date. In this report the Australian and New Zealand acquired business form part of the Australian Intermediated Insurance and New Zealand Insurance segments respectively. There is no contribution to profit after tax attributable to the acquisition in the current financial year.

The Consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (being the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the insurance products are underwritten and the related services provided to customers through the various distribution channels in various countries. Discrete financial information about each of these operating segments is reported to the Chief Executive Officer on a monthly basis.

The reportable segments are based on aggregated operating segments as these are the source of the Consolidated entity's major risks and have the most effect on the rates of return.

The reportable segments comprise the following business divisions:

A. AUSTRALIA DIRECT INSURANCE

This segment provides personal lines insurance products sold primarily under the NRMA, SGIO and SGIC brands, as well as products distributed through an underwriting arrangement with RACV.

B. AUSTRALIA INTERMEDIATED INSURANCE

This segment provides insurance products primarily sold under the CGU and Swann Insurance brands through insurance brokers, authorised representatives and distribution partners. This also includes the acquired Wesfarmers Australian insurance underwriting business which operates under the WFI and Lumley brands. It also includes a 10-year distribution agreement with Coles supermarket chain.

C. NEW ZEALAND INSURANCE

This segment provides general insurance products, offering most of its products under the State, AMI and NZI brands, as well as the Lumley brand following the Wesfarmers New Zealand insurance underwriting business acquisition.

D. ASIA INSURANCE

This segment provides direct and intermediated insurance through local brands, underwritten through subsidiaries in Thailand and Vietnam and the share of the operating result from the investment in associates in Malaysia, India and China.

E. CORPORATE AND OTHER

This segment comprises other activities, including corporate services, interest bearing liabilities funding costs and investment of the shareholders' funds.

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

CONSOLIDATED	AUSTRALIA DIRECT INSURANCE	AUSTRALIA INTER-MEDIATED INSURANCE	NEW ZEALAND INSURANCE	ASIA INSURANCE	CORPORATE AND OTHER	TOTAL
	$m	$m	$m	$m	$m	$m
2014						
External revenue	**5,764**	**3,394**	**2,809**	**301**	**411**	**12,679**
Total revenue	**5,764**	**3,394**	**2,809**	**301**	**411**	**12,679**
Underwriting profit/(loss)	**619**	**305**	**206**	**9**	**1**	**1,140**
Investment income net of investment fees - technical reserves	**289**	**174**	**(26)**	**3**	**(1)**	**439**
Insurance profit/(loss)	**908**	**479**	**180**	**12**	**-**	**1,579**
Investment income net of investment fees - shareholders' funds	**-**	**-**	**-**	**-**	**396**	**396**
Share of net profit/(loss) of associates	**-**	**-**	**-**	**2**	**(10)**	**(8)**
Finance costs	**-**	**-**	**-**	**-**	**(98)**	**(98)**
Other net operating result	**-**	**9**	**3**	**-**	**(79)**	**(67)**
Profit/(loss) before income tax from continuing operations	**908**	**488**	**183**	**14**	**209**	**1,802**
Income tax expense						**(472)**
Profit/(loss) for the year from continuing operations						**1,330**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**1,700**	**1,700**
Depreciation expense	**39**	**10**	**11**	**2**	**-**	**62**
Amortisation and impairment charges on acquired intangibles and goodwill	**12**	**19**	**14**	**4**	**-**	**49**
Total depreciation and amortisation expense	**51**	**29**	**25**	**6**	**-**	**111**
2013						
External revenue	5,066	3,282	1,822	230	360	10,760
Total revenue	5,066	3,282	1,822	230	360	10,760
Underwriting profit/(loss)	609	397	142	10	-	1,158
Investment income net of investment fees - technical reserves	213	73	(27)	10	1	270
Insurance profit/(loss)	822	470	115	20	1	1,428
Investment income net of investment fees - shareholders' funds	-	-	-	-	347	347
Share of net profit/(loss) of associates	-	1	-	-	(30)	(29)
Finance costs	-	-	-	-	(95)	(95)
Other net operating result	-	19	2	-	(79)	(58)
Profit/(loss) before income tax from continuing operations	822	490	117	20	144	1,593
Income tax expense						(424)
Profit/(loss) for the year from continuing operations						1,169
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	157	157
Depreciation expense	27	9	9	1	11	57
Amortisation and impairment charges on acquired intangibles and goodwill	9	18	22	-	-	49
Total depreciation and amortisation expense	36	27	31	1	11	106

NOTE 8. EARNINGS PER SHARE

	CONSOLIDATED 2014 cents	CONSOLIDATED 2013 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations[(a)]		
Basic earnings per ordinary share[(b)]	**56.09**	37.57
Diluted earnings per ordinary share	**53.62**	36.44
Continuing operations[(a)]		
Basic earnings per ordinary share[(b)]	**56.09**	51.46
Diluted earnings per ordinary share	**53.62**	49.60

(a) The calculation is not rounded.

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

	CONSOLIDATED 2014 $m	CONSOLIDATED 2013 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the year	**1,330**	882
Profit attributable to non-controlling interests	**(97)**	(106)
Profit/(loss) attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**1,233**	776
Earnings used in calculating diluted earnings per share		
Finance costs of convertible securities, net of tax	**24**	18
Profit/(loss) attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**1,257**	794
Profit/(loss) from continuing operations attributable to shareholders of the Parent	**1,233**	1,063
Profit/(loss) from discontinued operation attributable to shareholders of the Parent	**-**	(287)

	CONSOLIDATED 2014 Number of shares in millions	CONSOLIDATED 2013 Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue	**2,211**	2,079
Weighted average number of treasury shares held in trust	**(13)**	(12)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,198**	2,067
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**133**	102
Unvested share based remuneration rights supported by treasury shares held in trust	**13**	12
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**2,344**	2,181

NOTE 9. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
2014					
2014 interim dividend	**13.0**	**304**	**2 April 2014**	**30%**	**100%**
2013 final dividend	**25.0**	**519**	**9 October 2013**	**30%**	**100%**
		823			
2013					
2013 interim dividend	11.0	229	3 April 2013	30%	100%
2012 final dividend	12.0	249	3 October 2012	30%	100%
		478			

It is standard practice that the Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy (refer to section AE of the summary of significant accounting policies note) a dividend is not accrued for until it is determined to pay and so the dividends for a six-monthly period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

The dividends recognised in the current reporting year include $3 million (2013-$1 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

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

The DRP for the 2014 interim dividend paid on 2 April 2014 was settled with the on-market purchase of 11.3 million shares priced at $5.4195 per share (based on a daily volume weighted average price for 10 trading days from 10 March 2014 to 21 March 2014 inclusive, with no discount applied).

A copy of the terms and conditions for the DRP are available at www.iag.com.au/shareholder.

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

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

	CENTS PER SHARE	TOTAL AMOUNT	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
		$m			
2014 final dividend	**26.0**	**609**	**8 October 2014**	**30%**	**100%**

On 19 August 2014 the Board determined the final dividend will be payable to shareholders on 8 October 2014.

The Company's DRP will operate by issuing ordinary shares to participants by acquiring shares on market with an issue price per share of the volume weighted average market price as defined in the DRP terms with no discount applied. The last election notice for participation in the DRP in relation to this final dividend is 11 September 2014.

D. HISTORICAL SUMMARY

The table below provides a historical summary over the last ten years of dividend payments (cents per share) by aggregating dividends based on the financial period for which they were declared and not the financial period in which they were recognised and paid:

	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006	YEAR ENDED 30 JUNE 2007	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2011	YEAR ENDED 30 JUNE 2012	YEAR ENDED 30 JUNE 2013	**YEAR ENDED 30 JUNE 2014**
Interim dividend	12.0	13.5	13.5	13.5	4.0	8.5	9.0	5.0	11.0	**13.0**
Final dividend	14.5	16.0	16.0	9.0	6.0	4.5	7.0	12.0	25.0	**26.0**
Special dividend	-	12.5	-	-	-	-	-	-	-	**-**

E. DIVIDEND POLICY

The Group's dividend policy is to pay dividends equivalent to 50%-70% of reported cash earnings on a full year basis. Cash earnings are defined as:

- net profit after tax attributable to IAG shareholders;
- plus amortisation and impairment of acquired identifiable intangible assets; and
- excluding any unusual items.

F. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

There are currently no restrictions on the payment of dividends by the Parent other than:

- the payment of dividends is subject to provisions of the Corporations Act 2001 and IAG's constitution;
- the payment of dividends generally being limited to profits subject to ongoing solvency obligations noting that under the APRA Level 2 insurance group supervision requirements, IAG is required to obtain approval from APRA before payment of dividends on ordinary shares that exceeds the Group's after tax earnings as defined by APRA; and
- no dividends can be paid and no returns of capital can be made on ordinary shares, if distributions are not paid on the convertible preference shares or reset exchangeable securities, unless certain actions are taken by IAG. For further details refer to the interest bearing liabilities note.

There are currently no restrictions on the payment of dividends from subsidiaries to the Parent other than:

- the payment of dividends generally being limited to profits subject to ongoing solvency obligations of the subsidiary; and
- for certain subsidiaries which are required to meet the statutory reserve and regulatory minimum capital requirements. In particular, APRA has advised Australian general insurers that a general insurer under its supervision must obtain approval from it before declaring a dividend if the general insurer has incurred a loss, or proposes to pay dividends which exceed the level of profits earned in the current period.

G. DIVIDEND FRANKING AMOUNT

	CONSOLIDATED	
	2014	2013
	$m	$m
Franking account balance at reporting date at 30%	**609**	583
Franking credits to arise from payment of income tax payable	**81**	173
Franking credits available for future reporting periods	**690**	756
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	**(261)**	(223)
Franking credits available for subsequent financial periods based on a tax rate of 30%	**429**	533

After payment of the final dividend the franking balance of the Company has $321 million franking credits available for subsequent financial periods and is capable of fully franking a further $748 million of distributions.

The balance of the franking account arises from:

- franked income received or recognised as a receivable at the reporting date;
- income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
- franking debits from the payment of dividends recognised as a liability at the reporting date.

In accordance with the tax consolidation legislation, the consolidated amounts include franking credits that would be available to the Parent if distributable profits of non-wholly owned subsidiaries were paid as dividends.

All of the distributions paid in relation to the convertible preference shares and the interest payments in relation to the reset exchangeable securities for the financial year were fully franked at 30% (2013-fully franked at 30%).

NOTE 10. CLAIMS

A. NET CLAIMS EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

						CONSOLIDATED
			2014			2013
	Current year	**Prior years**	**Total**	Current year	Prior years	Total
	$m	**$m**	**$m**	$m	$m	$m
Gross claims - undiscounted	**6,728**	**309**	**7,037**	6,280	(204)	6,076
Discount	**(199)**	**220**	**21**	(202)	(74)	(276)
Gross claims - discounted	**6,529**	**529**	**7,058**	6,078	(278)	5,800
Reinsurance and other recoveries - undiscounted	**(1,074)**	**(806)**	**(1,880)**	(535)	(431)	(966)
Discount	**49**	**(26)**	**23**	12	136	148
Reinsurance and other recoveries - discounted	**(1,025)**	**(832)**	**(1,857)**	(523)	(295)	(818)
Net claims expense	**5,504**	**(303)**	**5,201**	5,555	(573)	4,982

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	CONSOLIDATED	
	2014	2013
	$m	$m
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**10,646**	9,570
Claims handling costs	**449**	409
Risk margin	**2,781**	2,712
	13,876	12,691
Discount to present value	**(1,939)**	(2,217)
Gross outstanding claims liability - discounted	**11,937**	10,474

The outstanding claims liability includes $7,171 million (2013-$6,659 million) which is expected to be settled more than 12 months from the reporting date.

II. Reconciliation of movements in discounted outstanding claims liability

					CONSOLIDATED	
			2014			2013
	Gross	**Reinsurance and other recoveries**	**Net**	Gross	Reinsurance and other recoveries	Net
	$m	**$m**	**$m**	$m	$m	$m
Balance at the beginning of the financial year	**10,474**	**(2,858)**	**7,616**	11,709	(3,928)	7,781
Movement in the prior year central estimate	**440**	**(692)**	**(252)**	(139)	(102)	(241)
Current year claims incurred	**6,225**	**(1,087)**	**5,138**	5,948	(787)	5,161
Claims paid/recoveries received	**(7,009)**	**1,892**	**(5,117)**	(6,551)	1,753	(4,798)
Movement in discounting	**252**	**(71)**	**181**	67	(33)	34
Movement in risk margin	**130**	**(23)**	**107**	46	(6)	40
Disposed through sale of businesses	**-**	**-**	**-**	(668)	280	(388)
Addition through business acquisition	**1,256**	**(291)**	**965**	-	-	-
Net foreign currency movements	**169**	**(101)**	**68**	182	(112)	70
Net claims charged to discontinued operation	**-**	**-**	**-**	(120)	77	(43)
Balance at the end of the financial year	**11,937**	**(3,231)**	**8,706**	10,474	(2,858)	7,616

III. Maturity analysis

Refer to the risk management note for details of the maturity profile of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date.

IV. Development table

The following table shows the development of the net undiscounted ultimate claims for the ten most recent accident years and a reconciliation to the net discounted outstanding claims liability.

											CONSOLIDATED	
											Accident year	
	2004 and prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	**$m**	$m
NET ULTIMATE CLAIMS PAYMENTS												
Development												
At end of accident year		**3,670**	**4,040**	**4,771**	**4,673**	**4,696**	**4,655**	**5,050**	**5,204**	**5,145**	**5,521**	
One year later		**3,623**	**3,967**	**4,734**	**4,630**	**4,736**	**4,630**	**5,130**	**5,272**	**5,068**		
Two years later		**3,592**	**3,892**	**4,693**	**4,627**	**4,672**	**4,528**	**5,112**	**5,216**			
Three years later		**3,546**	**3,900**	**4,708**	**4,606**	**4,665**	**4,476**	**5,167**				
Four years later		**3,512**	**3,887**	**4,638**	**4,585**	**4,579**	**4,424**					
Five years later		**3,461**	**3,862**	**4,563**	**4,517**	**4,526**						
Six years later		**3,435**	**3,842**	**4,536**	**4,505**							
Seven years later		**3,428**	**3,850**	**4,526**								
Eight years later		**3,417**	**3,847**									
Nine years later		**3,422**										
Current estimate of net ultimate claims payments		**3,422**	**3,847**	**4,526**	**4,505**	**4,526**	**4,424**	**5,167**	**5,216**	**5,068**	**5,521**	
Cumulative payments made to date[(a)]		**3,375**	**3,723**	**4,451**	**4,366**	**4,299**	**4,082**	**4,046**	**4,320**	**3,901**	**2,861**	
Net undiscounted outstanding claims payments	**594**	**47**	**124**	**75**	**139**	**227**	**342**	**1,121**	**896**	**1,167**	**2,660**	**7,392**
Discount to present value	**(143)**	**(8)**	**(19)**	**(10)**	**(18)**	**(27)**	**(37)**	**(76)**	**(91)**	**(113)**	**(152)**	**(694)**
Net discounted outstanding claims payments	**451**	**39**	**105**	**65**	**121**	**200**	**305**	**1,045**	**805**	**1,054**	**2,508**	**6,698**
Reconciliation												
Claims handling costs												**407**
Risk margin												**1,601**
Net outstanding claims liability												**8,706**

The development table above includes claims related to the United Kingdom (UK) discontinued operation up to the 2012 accident year only. Any outstanding claims relating to the UK that remained at the time of divestment have been treated as paid in the table above within item (a).

Where an entity or business that includes an outstanding claims liability has been acquired the claims for the acquired businesses are included in the claims development table from and including the year of acquisition. Accordingly the 2014 accident year includes claims acquired on acquisition of the Wesfarmers insurance underwriting business in Australia and New Zealand.

Conditions and trends that have affected the development of the liabilities in the past may or may not occur in the future. Accordingly conclusions about future results may not necessarily be derived from the information presented in the tables above.

The development table shown above relates to both short-tail and long-tail claims.

The gross outstanding claims liability includes international operations. For ease of comparison within the claims development table, all payments not denominated in Australian dollars have been converted to Australian dollars using the exchange rates as at the reporting date. Therefore, the claims development table disclosed each reporting year cannot be reconciled directly to the equivalent tables presented in previous years' financial report.

V. Central estimate and risk margin

a. REPORTING DATE VALUES

	CONSOLIDATED	
	2014	2013
	%	%
The percentage risk margin applied to the net outstanding claims liability	**23**	21
The probability of adequacy of the risk margin	**90**	90

b. PROCESS

The outstanding claims liability is determined based on three building blocks being:

- a central estimate of the future cash flows;
- discounting for the effect of the time value of money; and
- a risk margin for uncertainty.

i. Future cash flows

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs.

The estimation process involves using the Consolidated entity's specific data, relevant industry data and more general economic data. Each class of business is usually examined separately and the process involves consideration of a large number of factors. These factors may include the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business, the key actuarial assumptions set out in section VI and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claims types and lines of business. The selection of the appropriate actuarial model takes into account the characteristics of a claim type and class of business and the extent of the development of each accident period.

ii. Discounting

Projected future claims payments, both gross and net of reinsurance and other recoveries and associated claims handling costs are discounted to a present value using appropriate risk free discount rates.

iii. Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of sufficiency. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims runoff process, and risks external to IAG, for example the impact of future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate. The volatility measure for each class is derived after consideration of statistical modelling and benchmarking to industry analysis. Certain product classes may be subject to the emergence of new types of latent claims and such uncertainties are considered when setting the volatility and hence the risk margin appropriate for those classes.

The long-tail classes of business generally have the highest volatilities for outstanding claims as the longer average time for claims to be reported and settled allows more time for sources of uncertainty to emerge. Short-tail classes generally have lower levels of volatility for outstanding claims.

The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification. The level of diversification assumed between classes has due regard to industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The determination of the overall risk margin takes into account the volatility of each class of business and the diversification between the lines of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and risks in the prevailing environment, results in an overall probability of adequacy for the outstanding claims liability of 90% (2013-90%).

VI. Actuarial assumptions

The following ranges of key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at the reporting date, within the operating segments.

ASSUMPTION				CONSOLIDATED
	AUSTRALIA DIRECT INSURANCE	AUSTRALIA INTERMEDIATED INSURANCE*	NEW ZEALAND INSURANCE*	ASIA INSURANCE
2014				
Discounted average term to settlement	**3.3 years**	**4.4 years**	**0.8 years**	**0.4 years**
Inflation rate	**2.4%-4.0%**	**2.5%-4.8%**	**2.5%**	**0.0%-4.0%**
Superimposed inflation rate	**0.0%-5.0%**	**0.0%-5.0%**	**0.0%**	**0.0%**
Discount rate	**2.4%-5.0%**	**2.5%-5.0%**	**3.0%-4.1%**	**0.0%**
Claims handling costs ratio	**4.1%**	**5.8%**	**5.2%**	**2.1%**
2013				
Discounted average term to settlement	3.3 years	5.2 years	0.7 years	0.4 years
Inflation rate	2.6%-4.0%	2.8%-5.0%	2.2%	0.0%-4.0%
Superimposed inflation rate	0.0%-5.0%	0.0%-5.0%	0.0%	0.0%
Discount rate	2.5%-5.4%	2.5%-5.3%	2.2%-3.4%	0.0%
Claims handling costs ratio	4.8%	5.4%	5.2%	1.5%

* 2014 operating segments include Wesfarmers' insurance underwriting business acquired at 30 June 2014.

a. PROCESS USED TO DETERMINE ASSUMPTIONS

i. Discounted average term to settlement

The discounted average term to settlement relates to the expected payment pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historic settlement patterns. The discounted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

ii. Inflation rate

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators.

iii. Superimposed inflation rate

Superimposed inflation tends to occur due to trends in wider society such as the cost of court settlements increasing at a faster rate than the economic inflation rate utilised. An allowance for superimposed inflation is made for each underlying model, where appropriate, after considering the historical levels of superimposed inflation present in the portfolio, projected future superimposed inflation and industry superimposed inflation trends.

iv. Discount rate

The discount rate is derived from market yields on government securities.

v. Claims handling costs ratio

The future claims handling costs ratio is generally calculated with reference to the historical experience of claims handling costs as a percentage of past payments, together with budgeted costs going forward.

VII. The effect of changes in assumptions

a. GENERAL IMPACT OF CHANGES

i. Discounted average term to settlement

A decrease in the discounted average term to settlement would reflect claims being paid sooner than anticipated and so would increase the claims expense. Note that this sensitivity test only extends or shortens the term of the payments assumed in the valuation, without changing the total nominal amount of the payments.

ii. Inflation and superimposed inflation rates

Expected future payments take account of inflationary increases. An increase or decrease in the assumed levels of either economic or superimposed inflation will have a corresponding decrease or increase on profit and loss.

iii. Discount rate

The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have a corresponding increase or decrease on profit and loss.

iv. Claims handling costs ratio

An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the ratio assumption will have a corresponding decrease or increase on profit and loss.

b. SENSITIVITY ANALYSIS OF CHANGES

The impact on the net outstanding claims liabilities before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and without regard to other balance sheet changes that may simultaneously occur. Changes are stated net of reinsurance recoveries.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate.

ASSUMPTION					CONSOLIDATED
	MOVEMENT IN ASSUMPTION	AUSTRALIA DIRECT INSURANCE	AUSTRALIA INTERMEDIATED INSURANCE*	NEW ZEALAND INSURANCE*	ASIA INSURANCE
		$m	$m	$m	$m
2014					
Discounted average term to settlement	**+10%**	**(52)**	**(89)**	**(1)**	**-**
	-10%	**52**	**86**	**1**	**-**
Inflation rate	**+1%**	**135**	**140**	**4**	**-**
	-1%	**(127)**	**(124)**	**(4)**	**-**
Discount rate	**+1%**	**(126)**	**(121)**	**(4)**	**-**
	-1%	**137**	**140**	**4**	**-**
Claims handling costs ratio	**+1%**	**51**	**37**	**7**	**2**
	-1%	**(51)**	**(37)**	**(7)**	**(2)**
2013					
Discounted average term to settlement	+10%	(54)	(119)	(1)	-
	-10%	54	108	1	-
Inflation rate	+1%	135	134	4	-
	-1%	(127)	(116)	(4)	-
Discount rate	+1%	(126)	(114)	(3)	-
	-1%	137	134	3	-
Claims handling costs ratio	+1%	42	25	3	1
	-1%	(42)	(25)	(3)	(1)

* 2014 operating segments include Wesfarmers' insurance underwriting business acquired at 30 June 2014.

NOTE 11. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	CONSOLIDATED	
	2014	2013
	$m	$m
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable on outstanding claims - undiscounted	**3,877**	3,642
Discount to present value	**(646)**	(784)
Expected reinsurance and other recoveries receivable on outstanding claims - discounted	**3,231**	2,858

The carrying value of reinsurance recoveries and other recoveries includes $1,865 million (2013-$1,707 million) which is expected to be settled more than 12 months from the reporting date.

Refer to the claims note for a reconciliation of the movement in reinsurance and other receivables on incurred claims.

B. ACTUARIAL ASSUMPTIONS

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability (refer to section VI of the claims note).

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses (for example those relating to catastrophe events) are analysed on a case by case basis for reinsurance purposes.

C. THE EFFECT OF CHANGES IN ASSUMPTIONS

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in the claims note.

NOTE 12. DEFERRED INSURANCE ASSETS

	CONSOLIDATED	
	2014	2013
	$m	$m
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**795**	753
Acquisition costs deferred	**1,607**	1,283
Amortisation charged to profit	**(1,386)**	(1,203)
Disposed through sale of business	**-**	(45)
Net acquisition costs earned and written on discontinued operation	**-**	(5)
Net foreign exchange movements	**12**	12
Deferred acquisition costs at the end of the financial year	**1,028**	795

The carrying value of deferred acquisition costs includes $82 million (2013-$58 million) which is expected to be amortised more than 12 months from reporting date.

B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	**542**	493
Reinsurance expenses deferred	**1,186**	849
Amortisation charged to profit	**(1,077)**	(817)
Addition through business acquisition	**20**	-
Disposed through sale of business	**-**	(8)
Net acquisition costs earned and written on discontinued operation	**-**	(1)
Net foreign exchange movements	**35**	26
Deferred outwards reinsurance expense at the end of the financial year	**706**	542

The carrying value of deferred outwards reinsurance expense includes $9 million (2013-$45 million) which is expected to be amortised more than 12 months from reporting date.

NOTE 13. UNEARNED PREMIUM LIABILITY

	CONSOLIDATED	
	2014	2013
	$m	$m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**5,145**	4,942
Deferral of premiums written during the financial year	**5,062**	4,981
Earning of premiums written in previous financial years	**(5,004)**	(4,618)
Additions through business acquisition	**987**	-
Disposed through sale of business	**-**	(212)
Net premiums earned and written on discontinued operation	**-**	(18)
Net foreign exchange movements	**66**	70
Unearned premium liability at the end of the financial year	**6,256**	5,145

The carrying value of unearned premium liability includes $236 million (2013-$141 million) which is expected to be earned more than 12 months from reporting date.

B. LIABILITY ADEQUACY TEST

The liability adequacy test (LAT) has been conducted using the central estimate of the premium liabilities calculated for reporting to APRA (refer to the capital management note), adjusted as appropriate, together with an appropriate margin for uncertainty for each portfolio of contracts. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The liability adequacy test is required to be conducted at a level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. The Group defines ‘broadly similar risks’ at a level where policies are affected by one or more common risk factors, including natural peril events, general weather conditions, economic conditions, inflationary movements, legal and regulatory changes as well as legislative reforms, reinsurance cost changes and variation in other input costs. For the current reporting year, the ‘broadly similar risks’ test results in a more granular interpretation for business written in Asia. The Group defines 'managed together' at a segment level as the respective Divisional CEOs manage the entire portfolio within their respective division. The ‘managed together’ test results in a more granular interpretation for business written within Australia. As a result, the liability adequacy test is currently performed at the segment level for Australia Direct, Australia Intermediated and New Zealand, and at subsidiary level within Asia until such time when the Asian portfolio becomes more diverse.

The liability adequacy test at reporting date resulted in a surplus for the Group (2013-surplus for all portfolios).

	CONSOLIDATED	
	2014	2013
	$m	$m
Net central estimate of present value of expected future cash flows from future claims	**4,013**	3,360
Risk margin of the present value of expected future cash flows	**93**	71
	4,106	3,431
Risk margin percentage	**2.3%**	2.1%
Probability of adequacy	**60.0%**	60.0%

The risk margin used in testing individual portfolios is calculated by using a probability of adequacy methodology based on assessments of the levels of risk in each portfolio for the liability adequacy test. The methodology of using probability of adequacy as a basis for calculating the risk margin, including diversification benefit, is consistent with that used for the determination of the risk margin for the outstanding claims liability. The process used to determine the risk margin, including the way in which diversification of risks has been allowed for, is explained in the claims note. The probability of adequacy represented by the liability adequacy test differs from the probability of adequacy represented by the outstanding claims liability. The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability.

NOTE 14. INVESTMENTS

	CONSOLIDATED	
	2014	2013
	$m	$m
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held in investment	**2,554**	1,226
Government and semi-government bonds	**2,248**	2,810
Corporate bonds and notes	**6,810**	6,447
Subordinated debt	**1,307**	836
Fixed interest trusts	**63**	53
Other	**802**	755
	13,784	12,127
II. Equity investments		
a. DIRECT EQUITIES		
Listed	**808**	768
Unlisted	**119**	228
b. EQUITY TRUSTS (INCLUDING PROPERTY TRUSTS)		
Listed	**69**	63
Unlisted	**426**	271
	1,422	1,330
III. Other investments		
Other trusts	**158**	199
	158	199
IV. Derivatives		
Investment related derivatives	**13**	(40)
	13	(40)
	15,377	13,616

The Group's equity investments include the exposure to convertible securities.

B. DETERMINATION OF FAIR VALUE

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The increase in investment assets is primarily driven by the acquired insurance underwriting business of Wesfarmers Limited in Australia and New Zealand. The fair value hierarchy is determined using the following levels:

I. Level 1 quoted prices

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

II. Level 2 other observable inputs

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

III. Level 3 unobservable inputs

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

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

	LEVEL 1	LEVEL 2	LEVEL 3	CONSOLIDATED TOTAL
	$m	$m	$m	$m
2014				
Interest bearing investments	**4,850**	**8,934**	**-**	**13,784**
Equity investments	**877**	**433**	**112**	**1,422**
Other investments	**-**	**158**	**-**	**158**
Derivatives	**(1)**	**14**	**-**	**13**
	5,726	**9,539**	**112**	**15,377**
2013				
Interest bearing investments	4,818	7,309	-	12,127
Equity investments	831	417	82	1,330
Other investments	-	199	-	199
Derivatives	(2)	(38)	-	(40)
	5,647	7,887	82	13,616

NOTE 15. RECEIVABLES

	CONSOLIDATED 2014	CONSOLIDATED 2013
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Premium receivable	**3,357**	2,749
Provision for impairment	**(41)**	(37)
Net premium receivable	**3,316**	2,712
II. Trade and other receivables [(a)]		
Reinsurance recoveries on paid claims	**230**	187
Other trade debtors	**39**	33
Provision for impairment	**(5)**	(5)
	34	28
Loan to associates[(b)]	**98**	103
Investment income receivable	**106**	90
Investment transactions not yet settled at reporting date	**38**	47
Corporate treasury derivatives receivable	**10**	-
Other debtors	**112**	71
Trade and other receivables	**628**	526
	3,944	3,238

(a) Other than the loan to associates, receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted as the effect of the time value of money is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short term nature of the assets.

(b) This loan is denominated in Malaysian ringgit and has a fixed term of 15 years. A cumulative preference dividend of 1% is payable annually. The loan relates to the Group's increased investment in AmGeneral to acquire Kurnia during the financial year ended 30 June 2013.

NOTE 16. INTANGIBLE ASSETS

	Software development expenditure	Distribution channels	Customer relationships	Brands	Other contractual arrangements	Total
	CONSOLIDATED					
	$m	$m	$m	$m	$m	$m
2014						
A. COMPOSITION*						
Cost	**596**	**160**	**169**	**108**	**-**	**1,033**
Accumulated amortisation	**(292)**	**(5)**	**(30)**	**(1)**	**-**	**(328)**
Accumulated impairment	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Net foreign exchange movements	**(9)**	**-**	**5**	**6**	**-**	**2**
Balance at the end of the financial year	**288**	**155**	**144**	**113**	**-**	**700**
B. RECONCILIATION OF MOVEMENTS						
Balance at the beginning of the financial year	**160**	**17**	**38**	**30**	**-**	**245**
Additions acquired and developed	**105**	**-**	**-**	**-**	**-**	**105**
Additions through business acquisitions	**57**	**140**	**112**	**80**	**-**	**389**
Amortisation	**(38)**	**(2)**	**(8)**	**(1)**	**-**	**(49)**
Net foreign exchange movements	**4**	**-**	**2**	**4**	**-**	**10**
Balance at the end of the financial year	**288**	**155**	**144**	**113**	**-**	**700**
2013						
C. COMPOSITION OF COMPARATIVES						
Cost	434	290	140	120	32	1,016
Accumulated amortisation	(254)	(88)	(52)	(21)	(30)	(445)
Accumulated impairment	(7)	(113)	(30)	(33)	(1)	(184)
Net foreign exchange movements	(13)	(72)	(20)	(36)	(1)	(142)
Balance at the end of the financial year	160	17	38	30	-	245
D. RECONCILIATION OF MOVEMENTS						
Balance at the beginning of the financial year	122	19	41	28	15	225
Additions acquired and developed	77	-	-	-	-	77
Additions through business acquisition	-	-	2	-	-	2
Disposal through sale of businesses	(12)	-	-	-	-	(12)
Amortisation	(24)	(2)	(8)	-	(15)	(49)
Amortisation charged to discontinued operation	(5)	-	-	-	-	(5)
Net foreign exchange movements	2	-	3	2	-	7
Balance at the end of the financial year	160	17	38	30	-	245

* Certain intangible assets were fully amortised in the prior reporting period and have therefore been removed from the 2014 balances.

	Software development expenditure	Distribution channels	Customer relationships	Brands	Other contractual arrangements
E. AMORTISATION RATES	20%-33.3%	10%-20%	10%-35%	0%-33%	100%

F. EXPLANATORY NOTES FOR INTANGIBLE ASSETS

I. Software development expenditure

The software development expenditure asset comprises both internally generated assets and acquired assets.

II. Acquired intangible assets

All of the intangible assets, other than the capitalised software development expenditure intangible asset, have been acquired. With the exception of certain brand assets, each of the acquired assets has a finite useful life. The amortisation of the acquired intangible assets with finite lives forms part of fee based, corporate and other expenses in the statement of comprehensive income. A broad description of the nature of each of the significant intangible assets is provided below.

a. DISTRIBUTION CHANNELS

The value of the distribution channels is derived from future revenue expected to be generated as a result of the existing relationships with the broker networks.

b. CUSTOMER RELATIONSHIPS
This represents the present value of future profits expected to arise from existing customer relationships (developed prior to acquisition). The assumptions for the useful life and attrition rates for the existing customer base are determined based on historical information of the business.

c. BRANDS
This represents the revenue generating value of the acquired brand and is determined using the relief from royalty method. Certain brands are recognised as having an indefinite useful life as there is no foreseeable limit to the period over which the brand is expected to generate net cash flows. Brand assets with an indefinite useful life are not subject to amortisation but are subject to impairment testing annually or more frequently when indicators of impairment are identified.

d. OTHER CONTRACTUAL ARRANGEMENTS
This represented the value of in-force customer contracts. The basis of determination is expected profit emerging from in-force business as it is earned.

G. IMPAIRMENT TESTING
For each category an impairment trigger review was conducted and where necessary the recoverable amount of particular assets determined.

I. For the year ended 30 June 2014
There was no impairment charge recognised during the year.

II. For the year ended 30 June 2013
There was no impairment charge recognised during the year.

NOTE 17. GOODWILL

	CONSOLIDATED	
	2014	2013
	$m	$m
A. COMPOSITION*		
Goodwill	**2,839**	2,303
Accumulated impairment charges	**-**	(421)
Net foreign exchange movements	**1**	(216)
	2,840	1,666
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**1,666**	1,625
Additional amounts arising from business acquisitions	**1,135**	1
Net foreign currency movements	**39**	40
Balance at the end of the financial year	**2,840**	1,666
C. ALLOCATION TO CASH GENERATING UNITS		
Australia Direct insurance operations	**582**	582
Australia Intermediated insurance operations	**1,586**	584
New Zealand insurance operations	**624**	448
Asia insurance operations	**48**	52
	2,840	1,666

* 30 June 2013 includes the discontinued operation balances that were fully impaired and have therefore been removed from the 2014 balances.

As the Group incorporates businesses into the Group and/or reorganises the way businesses are managed, reporting structures may change requiring a reconsideration of the identification of the cash generating units.

The goodwill relating to certain acquisitions outside Australia is denominated in currencies other than Australian dollars and so is subject to foreign exchange rate movements.

D. IMPAIRMENT ASSESSMENT
The impairment testing of goodwill involves the use of accounting estimates and assumptions. The recoverable amount of each cash generating unit is determined on the basis of value in use calculations. The value in use is calculated using a discounted cash flow methodology covering a ten or twenty year period with an appropriate terminal value at or before the end of year ten or twenty for each cash generating unit. The carrying value of identified intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

I. Assumptions used
The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill.

a. CASH FLOW FORECASTS
For the mature businesses, cash flow forecasts are based on ten year valuation forecasts for growth and profitability. Twenty year periods are only used in emerging markets, to enable appropriate phasing to terminal values.

b. TERMINAL VALUE
Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year ten or twenty, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country. The terminal growth rate assumptions used in the Group's impairment assessment for significant cash generating units as at 30 June 2014 are: Australia Direct insurance operations 4.5% (2013-4.5%), Australia Intermediated insurance operations 4.5% (2013-4.5%) and New Zealand insurance operations 3.5% (2013-3.5%).

c. DISCOUNT RATE
Discount rates reflect a beta and equity risk premium appropriate to the Group, with risk adjustments for individual segments and countries where applicable. The pre-tax discount rates used for significant cash generating units as at 30 June 2014 are: Australia Direct insurance operations 13.1% (2013-13.1%), Australia Intermediated insurance operations 12.6% (2013-13.2%) and New Zealand insurance operations 15.0% (2013-14.3%).

E. IMPAIRMENT TESTING
I. For the year ended 30 June 2014
There was no impairment charge recognised during the year.

II. For the year ended 30 June 2013
There was no impairment charge recognised during the year.

NOTE 18. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2014	2013
	$m	$m
A. COMPOSITION		
I. Trade creditors		
Commissions payable	**219**	167
Stamp duty payable	**123**	99
GST payable on premium receivable	**137**	132
Corporate treasury derivatives payable	**-**	32
Other	**323**	410
	802	840
II. Other payables		
Other creditors and accruals	**528**	401
Investment creditors	**170**	6
Interest payable on interest bearing liabilities	**15**	16
Loan from joint venture [(a)]	**8**	-
	1,523	1,263

(a) The loan relates to the Group's current payable balance with NTI Limited, a joint venture, and is expected to be settled within 12 months.

Other trade creditors includes $59 million (2013-$128 million) reinsurance collateral arrangements with various reinsurers to secure the Group reinsurance recoveries. The balance is anticipated to reduce through the settlement of amounts from reinsurers as they fall due. This payable is interest bearing.

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days to 12 months. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short term nature of the liabilities.

NOTE 19. RESTRUCTURING PROVISION

	CONSOLIDATED	
	2014	2013
	$m	$m
A. COMPOSITION		
Restructuring provision	**50**	6
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**6**	20
Additions	**50**	41
Amounts settled	**(6)**	(53)
Remeasurement of provisions	**-**	(2)
Balance at the end of the financial year	**50**	6

All of the provision outstanding at the reporting date is expected to be settled within 12 months (2013–all). The balance has not been discounted.

NOTE 20. INTEREST BEARING LIABILITIES

		CONSOLIDATED			
		2014		2013	
	Section	**CARRYING VALUE $m**	**FAIR VALUE $m**	CARRYING VALUE $m	FAIR VALUE $m
A. COMPOSITION					
I. Capital nature					
a. TIER 1 REGULATORY CAPITAL*					
Convertible preference shares	B. I	**377**	**402**	377	384
Reset exchangeable securities	B. II	**550**	**589**	550	565
b. TIER 2 REGULATORY CAPITAL					
GBP subordinated term notes	B. III	**182**	**190**	167	168
GBP subordinated exchangeable term notes	B. IV	**-**	**-**	261	261
NZD subordinated bonds	B. V	**302**	**314**	276	293
AUD subordinated convertible term notes	B. VI	**350**	**357**	-	-
II. Operational nature					
Other interest bearing liabilities		**2**	**2**	2	2
Less: capitalised transaction costs		**(11)**		(13)	
		1,752		1,620	

* These instruments are eligible for recognition as Tier 1 capital. A portion may be reclassified as Tier 2 capital to the extent the amount on issue is in excess of APRA's Tier 1 limits.

B. SIGNIFICANT TERMS AND CONDITIONS

I. Convertible preference shares

The convertible preference shares (CPS) have a face value of $377 million and were issued by the Company.

Key terms and conditions:

- Non-cumulative floating rate distribution payable semi-annually, the payments are expected to be fully franked.
- Distribution rate equals the sum of six month bank bill rate plus CPS margin of 4.00% per annum multiplied by (1–tax rate).
- Payments of distributions can only be made subject to meeting certain conditions. If no distribution is made, no dividends can be paid and no returns of capital can be made on ordinary shares until the next CPS dividend payment date.
- The CPS are scheduled for conversion on 1 May 2019 provided the mandatory conversion conditions are satisfied.
- IAG may exchange or redeem CPS on the exchange date, or upon occurrence of certain events, subject to APRA approval. The first optional exchange date is 1 May 2017.
- The CPS must be converted into ordinary shares upon request by APRA on occurrence of a non-viability trigger event.
- A non-viability trigger event occurs where APRA determines that CPS must be converted because without conversion or a public sector injection of capital or equivalent support IAG would become, in APRA's opinion, non-viable.

II. Reset exchangeable securities

The reset exchangeable securities (RES) have a face value of $550 million and were issued at par by IAG Finance (New Zealand) Limited, a wholly owned subsidiary of the Company.

Key terms and conditions:

- Non-cumulative floating rate distribution payable quarterly and expected to be fully franked.
- Distribution rate equals the sum of the three month bank bill rate plus RES margin of 4.00% per annum multiplied by (1-tax rate).
- Payments of distributions can only be made subject to meeting certain conditions. If no distribution is made, no dividends can be paid and no returns of capital can be made on ordinary shares unless IAG takes certain actions.
- The RES may be exchanged by IAG or the holder on a reset date, or upon certain events. The next reset date for the RES is 16 December 2019. On exchange, IAG may convert RES into IAG ordinary shares, arrange a third party to acquire RES for their face value or redeem RES for their face value (subject to APRA approval).
- The RES convert into IAG ordinary shares which would rank equally in all respects with all other IAG ordinary shares.

III. GBP subordinated term notes

The GBP subordinated term notes were issued with a face value of £250 million (equivalent to $625 million at date of issue) by the Company. A total of £150 million of the notes have been bought back since 2009.

Key terms and conditions:

- Fixed interest rate of 5.625% per annum payable annually.
- The notes mature on 21 December 2026 (non-callable for the first 10 years). If the notes are not redeemed by 21 December 2016, all notes become floating rate notes with an interest rate of the three month GBP LIBOR plus 1.62%.

IV. GBP subordinated exchangeable term notes

The GBP subordinated exchangeable term notes were issued at par with a face value of £157 million (equivalent to $260 million at date of issue) and were issued by Insurance Australia Limited, a wholly owned subsidiary of the Company.

On 13 June 2014, Insurance Australia Limited repurchased and cancelled its £157 million subordinated exchangeable loan note instrument.

V. NZD subordinated bonds

The NZD subordinated bonds were issued with a face value of NZ$325 million (equivalent to $246 million at date of issue) by the Company.

Key terms and conditions:

- Fixed interest rate of 7.5% per annum payable quarterly.
- The bonds mature on 15 December 2036 with the issuer having the option to redeem at par from 15 December 2016 and at subsequent interest payment dates subject to approval from APRA.
- If the bonds are not redeemed by 15 December 2016, the interest rate will equal the sum of the five year New Zealand swap rate on 15 December 2016 and each 5th anniversary thereafter plus a margin of 3.78% per annum.
- The bonds may also be redeemed by the issuer upon certain events subject to APRA's approval.

VI. AUD subordinated convertible term notes

The AUD subordinated convertible term notes were issued with a face value of $350 million by Insurance Australia Limited (IAL), a wholly owned subsidiary of the Company.

Key terms and conditions:

- Investors are entitled to interest paid quarterly at a floating rate equal to the three month bank bill swap rate (BBSW) plus a margin of 2.80% per annum;
- The notes mature on 19 March 2040 unless converted or redeemed earlier, subject to rights of conversion or redemption;
- IAL has an option to redeem the securities at face value between years five and six and for certain tax and regulatory events (in each case subject to APRA’s prior written approval);
- The securities are convertible into IAG ordinary shares at the option of holders on certain dates from year eight;
- If APRA determines IAG or IAL to be non-viable, the securities will convert into IAG ordinary shares or, if that is not possible, the securities will be written off; and
- The number of IAG ordinary shares received on conversion will be based on a volume-weighted average price (VWAP) over a certain period, less a discount of 1%. The number of IAG ordinary shares will be capped at a maximum number set by reference to the VWAP of IAG ordinary shares at the issue date (50% of that VWAP for conversion at the holder’s option and 20% of that VWAP for conversion on non-viability).

C. FAIR VALUE INFORMATION

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

The fair value for all interest bearing liabilities is calculated using their quoted market price (fair value hierarchy level 1), except for the GBP subordinated exchangeable term notes where a valuation technique based on market available data for a similar instrument is used (fair value hierarchy level 2).

NOTE 21. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	2014	2013	**2014**	2013
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
I. Ordinary shares				
Balance at the beginning of the financial year	**2,079**	2,079	**5,353**	5,353
Shares issued under institutional placement, net of transaction costs	**219**	-	**1,186**	-
Share issued under Share Purchase Plan, net of transaction costs	**43**	-	**236**	-
Balance at the end of the financial year	**2,341**	2,079	**6,775**	5,353

All ordinary shares on issue are fully paid. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held. Dividends, if declared, are subject to there being distributable profits available and not breaching APRA capital adequacy requirements.

II. Changes during the year

During the year ended 30 June 2014, the Company undertook the following two issues of ordinary shares to fund the acquisition of the insurance underwriting business of Wesfarmers Limited in Australia and New Zealand:

- $1.2 billion raised through a fully underwritten institutional placement at $5.47 per ordinary share, of approximately 219 million shares on 23 December 2013; and
- $236 million raised through a Share Purchase Plan at $5.47 per ordinary share, of approximately 43 million shares on 3 February 2014.

There were no issues of ordinary shares during the year ended 30 June 2013.

B. TREASURY SHARES HELD IN TRUST

Share based remuneration is provided in different forms to eligible employees. To satisfy obligations under the various share based remuneration plans, shares are generally bought on market at or near grant date of the relevant arrangement and held in trust. Upon consolidation of the trusts, the shares held that are controlled for accounting purposes are recognised as treasury shares held in trust, as described in section AH of the summary of significant accounting policies note. The balance of treasury shares held in trust at a reporting date represents the cumulative cost of acquiring IAG shares that have not yet been distributed to employees as share based remuneration.

C. NATURE AND PURPOSE OF RESERVES

I. Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of the financial position and performance of subsidiaries that have a functional currency other than Australian dollars.

II. Share based remuneration reserve

The share based remuneration reserve is used to recognise the fair value at grant date of equity settled share based remuneration provided to employees over the vesting period, as described in section AB of the summary of significant accounting policies note.

NOTE 22. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED	
	2014	2013
	$m	$m
A. COMPOSITION		
Cash held for operational purposes	**447**	394
Cash and short term money held in investments	**2,554**	1,226
Cash held as discontinued operation	**9**	96
Cash and cash equivalents	**3,010**	1,716

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held in investments readily convertible to cash within two working days, net of any bank overdraft. The carrying amount of the cash and cash equivalents presented on the balance sheet is the same as that used for the purposes of the cash flow statement.

Cash held as discontinued operation is subject to certain restrictions. Part of the funds are held to support the United Kingdom pension fund liability and can be withdrawn if certain conditions are satisfied.

B. SIGNIFICANT RISKS
The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk relevant to cash and cash equivalents at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk and frequent repricing.

A portion of the cash balances is held in currencies other than the Australian dollar. For information regarding the management of currency risk by the Group refer to the risk management note.

The majority of the amounts bear variable rates of interest. Those balances bearing a fixed rate of interest mature in less than one year. A small portion of the amounts bear no interest.

	CONSOLIDATED	
	2014	2013
	$m	$m
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	**1,330**	882
I. Non-cash items		
Depreciation of property and equipment	**62**	57
Amortisation and impairment of intangible assets and goodwill	**49**	49
Net realised (gains) and losses on disposal of investments	**2**	(110)
Net unrealised (gains) and losses on revaluation of investments	**(296)**	50
Net retained earnings remeasurements of defined benefit superannuation plans	**18**	28
Retained earnings adjustment for share based remuneration	**25**	22
Non-cash items related to discontinued operation	**-**	264
Other	**(30)**	29
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	**(248)**	430
Prepayments, deferred levies and charges	**(172)**	(124)
Deferred tax assets	**29**	(31)
Defined benefit superannuation asset	**-**	(1)
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	**42**	427
Provisions	**(33)**	20
Current tax liabilities	**(32)**	(1)
Deferred tax liabilities	**-**	(9)
Outstanding claims liability	**207**	(608)
Unearned premium liability	**124**	416
Net cash flows from operating activities	**1,077**	1,790

D. SIGNIFICANT NON-CASH TRANSACTIONS RELATING TO FINANCING AND INVESTING TRANSACTIONS
There were no financing or investing transactions during the year which have had a material effect on the assets and liabilities that did not involve cash flows.

NOTE 23. ACQUISITIONS AND DISPOSALS OF BUSINESSES

A. ACQUISITION OF SUBSIDIARIES

I. For the financial year ended 30 June 2014

a. WESFARMERS ACQUISITION

On 30 June 2014, the Group acquired the insurance underwriting business of Wesfarmers Limited in Australia and New Zealand, strengthening IAG's position in its home markets of Australia and New Zealand. Accordingly, the assets and liabilities of acquired companies are consolidated from this date, with no contribution to the Group's profit or loss after tax in the current financial year. The acquisition comprises Wesfarmers' insurance underwriting business trading under the WFI and Lumley Insurance brands. It also includes a 10-year distribution agreement with Coles supermarket chain. The acquisition supports the Group's strategic priorities of accelerating profitable growth in Australia and sustaining its market-leading position in New Zealand.

The acquired business forms part of the Australian and New Zealand respective cash generating units. The total consideration for the acquisition was $1,980 million which includes an initial purchase price of $1,845 million and a completion payment adjustment of $135 million. This was funded by the combination of an issue of ordinary shares through an institutional placement, Share Purchase Plan, subordinated debt as well as internal funds.

Details of the financial impact of the acquisition are as follows:

	WESFARMERS ACQUISITION $m
2014	
Purchase price	
Cash paid	**1,845**
Cash payable	**135**
Total purchase consideration	**1,980**
Provisional fair value of identifiable assets and liabilities acquired and goodwill recognised by acquiree	
Cash and cash equivalents	**1,558**
Investments	**218**
Trade and other receivables	**536**
Reinsurance and other recoveries on outstanding claims	**291**
Deferred tax assets	**40**
Trade and other payables	**(134)**
Deferred tax liabilities	**(108)**
Unearned premium liability	**(976)**
Outstanding claims liability	**(1,251)**
Other assets and liabilities	**294**
Net identifiable assets acquired during the financial year	**468**
Intangible assets recognised upon acquisition	
Brands	**77**
Customer relationships	**104**
Distribution channels	**140**
Software development expenditure	**57**
Goodwill	**1,134**
	1,512

At 30 June 2014 the fair values of the assets and liabilities acquired are provisional and pending final valuations. On completion of the final valuations the balances for the acquisition may be revised in accordance with applicable Australian Accounting Standards.

The measurement of identifiable intangible assets acquired in a business combination is highly subjective and there are a range of possible values that could be attributed for initial recognition. The Group uses the skills and experience of valuation specialists in establishing an initial range within which the fair value is to be recognised. Judgement is then applied in selecting the value to be recognised on the balance sheet. Judgement is also applied in determining the useful life of the intangible assets which impacts directly on the amortisation charges to be incurred following an acquisition.

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the acquisition date. Goodwill comprises components such as other intangible assets not separately identified such as the assembled workforce; buyer-specific synergies not factored into the valuation of intangible assets from the perspective of a generic acquirer; and the ability to generate new customer and broker relationships. None of the goodwill recognised is expected to be deductible for income tax purposes.

The net cash flow in relation to the acquisition is as follows:

	WESFARMERS ACQUISITION $m
2014	
Cash consideration paid	**(1,845)**
Cash balance acquired	**1,558**
Net outflow of cash	**(287)**
Contribution from the acquired business*	
Revenue	**2,027**
Profit/(loss) after income tax	**124**

* The revenue and profit/(loss) after income tax disclosure represent management's estimate of the contribution the acquisition would have made to the Consolidated entity result if the acquisition had occurred on 1 July 2013.

The Group incurred acquisition related costs of $18 million on legal fees and due diligence costs. These costs have been included in corporate and other expenses in the statement of comprehensive income.

b. AAA ASSURANCE CORPORATION

On 24 July 2013, the Group increased its stake in AAA Assurance from 30% to 60.9% for a consideration of less than $20 million. The Group's effective shareholding was further increased to 63.17% as a result of a capital reduction during the first half of the current financial year. The operating results, assets and liabilities of AAA Assurance have been consolidated by the Group from 24 July 2013.

B. OTHER ACQUISITIONS

I. For the financial year ended 30 June 2014

There were no other material acquisitions by the Consolidated entity.

C. DISPOSAL OF SUBSIDIARIES

I. For the financial year ended 30 June 2014

There were no disposals of subsidiaries by the Consolidated entity.

NOTE 24. DETAILS OF SUBSIDIARIES

The following entities constitute the Consolidated entity.

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2014	2013
			%	%
A. ULTIMATE PARENT				
Insurance Australia Group Limited		Australia		
B. SUBSIDIARIES				
I. Australian general insurance operations				
A.C.N. 137 507 110	A	Australia		
CGU Foundation Pty Ltd	A	Australia		
CGU Insurance Australia Limited		Australia		
CGU Insurance Limited		Australia		
CGU-VACC Insurance Limited		Australia		
CGU Workers Compensation (NSW) Limited		Australia		
CGU Workers Compensation (VIC) Limited		Australia		
HBF Insurance Pty Ltd		Australia		
Hunter Insurance Services Pty Limited	B	Australia		
IAG Re Australia Limited		Australia		
IAL Life Pty Limited	A	Australia		
Insurance Australia Limited		Australia		
Insurance Manufacturers of Australia Pty Limited		Australia	**70.00**	70.00
Mutual Community General Insurance Proprietary Limited		Australia		
National Adviser Services Pty Ltd	A	Australia		
NRMA Personal Lines Holdings Pty Limited		Australia		
Sitrof Australia Limited		Australia		
Strata Unit Underwriting Agency Pty Limited		Australia		
Swann Insurance (Aust) Pty Ltd		Australia		
WFI Insurance Limited (formerly Wesfarmers General Insurance Ltd)	B	Australia		-
World Class Accident Repairs (Cheltenham North) Pty Limited	A	Australia	**70.00**	70.00
II. New Zealand operations				
151 Insurance Limited	C	New Zealand		
AMI Insurance Limited	C	New Zealand		
Belves Investments Limited	C	New Zealand		
Direct Insurance Services Limited	C	New Zealand		
IAG New Zealand Limited	C,D	New Zealand		
IAG (NZ) Holdings Limited	C	New Zealand		
IAG (NZ) Share Plan Nominee Limited	C	New Zealand		
Lumley General Insurance (NZ) Limited	B	New Zealand		-
New Zealand Insurance Limited	C	New Zealand		
NZI Staff Superannuation Fund Nominees Limited	C	New Zealand		
Runacres and Associates Limited	C	New Zealand		
Runacres Premium Funding Limited	C	New Zealand		
State Insurance Limited	C	New Zealand		
The IAG New Zealand Limited Employee Share Plan	C	New Zealand		
The IAG Performance Awards Rights Plan for Executives in New Zealand	C	New Zealand		

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100% 2014 %	2013 %
III. Other international operations				
AAA Assurance Corporation	B	Vietnam	**63.17**	30.00
Alba Group Pte Ltd	C	Singapore		
IAG (Asia) General Pte Ltd	C	Singapore		
IAG Insurance (Thailand) Ltd	C	Thailand		
IAG Re Labuan (L) Berhad	C	Malaysia		
IAG Re Singapore Pte Ltd	C	Singapore		
Safety Insurance Public Company Limited	C	Thailand	**98.62**	98.62
IV. Investment operations				
Fixed Interest Shareholders Fund	A	Australia		
Fixed Interest Technical Provisions Fund	A	Australia		
IAG Asset Management Alternative Investment Trust	A	Australia		
IAG Asset Management Cash Management Trust	A	Australia	**86.20**	86.33
IAG Asset Management Equity Trust	A	Australia		
IAG Asset Management Limited		Australia		
IAG Asset Management Private Equity Trust	A	Australia	**83.19**	83.19
IAG Asset Management Sustainable Investment Trust	A	Australia	**50.01**	50.01
K2 Advisors Alpha Strategies Fund	A	Australia		
V. Corporate operations				
Empire Equity Australia Pty Limited	A	Australia		
IAG & NRMA Superannuation Pty Limited	A	Australia		
IAG Finance (New Zealand) Limited		Australia		
IAG International Pty Limited		Australia		
IAG Share Plan Nominee Pty Limited	A	Australia		
IAG Share and Rights Plan Trust		Australia		
IAG UK Holdings Limited	C	United Kingdom		
Insurance Australia Group Services Pty Limited		Australia		
Lumley Insurance Group Limited	B	Australia		-
Lumley Technology Pty Ltd	B	Australia		-
Safety Thailand Holding Pty Limited	A	Australia		
Thailand Insurance Holdings Pty Limited	A	Australia		
WFI Dormant Pty Ltd (formerly Wesfarmers Federation Insurance Pty Ltd)	B	Australia		-
WFI Insurance Holdings Pty Ltd (formerly Wesfarmers Insurance Pty Ltd)	B	Australia		-
C. ENTITIES THAT COMMENCED DEREGISTRATION DURING THE YEAR ENDED 30 JUNE 2014				
Alba Underwriting Limited	E	United Kingdom	**-**	
AU No 2 Limited	E	United Kingdom	**-**	
B&BHL Limited	E	United Kingdom	**-**	
Cox Commercial Limited	E	United Kingdom	**-**	
Diagonal Underwriting Agency Limited	E	United Kingdom	**-**	
Direct Insurance Services Limited	E	United Kingdom	**-**	
EIGL Limited	E	United Kingdom	**-**	
D. DISSOLUTION OF PARTNERSHIP DURING THE YEAR ENDED 30 JUNE 2014				
IAG Finance (UK) LLP	E	Gilbraltar	**-**	
E. ENTITIES IN VOLUNTARY LIQUIDATION AT 30 JUNE 2014				
CGU Workers Compensation (SA) Limited	E	Australia	**-**	
Lumley Superannuation Pty Limited	E	Australia	**-**	-
Parks Insurance Pty Limited	E	Australia	**-**	-

NOTES

A Small proprietary companies, trusts or funds that are not required to prepare, and have not prepared, audited financial statements.
B Audited by accounting firms not affiliated with KPMG.
C Audited by overseas KPMG firms.
D All subsidiaries have only ordinary shares on issue except this entity also has perpetual preference shares on issue.
E Companies in liquidation or deregistration not required to prepare audited financial statements.

NOTE 25. NON-CONTROLLING INTERESTS

A. SUMMARISED FINANCIAL INFORMATION

The Group has non-controlling interests in Insurance Manufacturers of Australia Pty Limited, AAA Assurance Corporation and Safety Insurance Public Company Limited.

Set out below is summarised financial information for the Group's material non-controlling interests, being Insurance Manufacturers of Australia Pty Limited. The amounts disclosed are before intercompany eliminations.

	INSURANCE MANUFACTURERS OF AUSTRALIA PTY LIMITED	
	2014	2013
	$m	$m
I. Summarised statement of comprehensive income		
Net premium revenue	**2,633**	2,547
Profit/(loss) after tax attributable to IAG shareholders	**238**	248
Profit/(loss) after tax attributable to non-controlling interest	**102**	106
Other comprehensive income	**2**	2
Total comprehensive income	**342**	356
II. Summarised balance sheet		
Total assets	**3,459**	3,460
Total liabilities	**(2,716)**	(2,789)
Net assets	**743**	671
Carrying amount of non-controlling interest	**223**	201
III. Summarised cash flow		
Net cash flows from operating and investing activities	**204**	255
Dividends paid to other Group entities	**(189)**	(198)
Dividends paid to non-controlling interest	**(81)**	(85)
Total net cash flows	**(66)**	(28)

NOTE 26. INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

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

					CONSOLIDATED		
	TABLE NOTE	REPORTING DATE	COUNTRY OF INCORPORATION /FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE	OWNERSHIP INTEREST	
					2014	**2014**	2013
					$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	A	31 March	Malaysia	Insurance underwriting	**352**	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)	A	31 March	India	Insurance underwriting	**87**	**26.00**	26.00
Bohai Property Insurance Company Ltd (Bohai Insurance)	B	31 December	China	Insurance underwriting	**107**	**20.00**	20.00
Other					**26**		
					572		

TABLE NOTE

A Audited by accounting firms not affiliated with KPMG.

B Audited by overseas KPMG firms.

None of the associates are listed on a stock exchange. Those entities that do not have a 30 June financial year end are equity accounted using financial information for the reporting year to 30 June which includes, at least in part, unaudited management results.

There is no unrecognised share of losses arising from the above joint venture or associates, both for the reporting year and cumulatively.

	CONSOLIDATED 2014 $m	2013 $m
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**577**	384
Additional investment in existing associate	**12**	153
Disposal of investment in associate	**(7)**	-
Share of associates' net profit/(loss)*	**12**	(10)
Net foreign exchange movements	**(21)**	50
Dividends received	**(1)**	-
Balance at the end of the financial year	**572**	577

* The contribution of Asian-based associates to the net profit/(loss) of the Group in the statement of comprehensive income includes regional support and development costs of $20 million (2013-$19 million).

C. SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

These disclosures relate to the investment in Asia (AmGeneral, SBI General and Bohai Insurance) as all other investments in associates are not significant.

Disclosure is based on the financial statements, prepared in accordance with IFRS under Group accounting policies, for the financial year ended 31 March 2014 for AmGeneral and SBI General and for the financial year ended 31 December 2013 for Bohai Insurance. The following summarised information represents the financial position and performance of the entities as a whole and not just IAG's share.

	2014 AmGeneral Holdings Berhad $m	2014 SBI General Insurance Company Limited $m	2014 Bohai Property Insurance Company Ltd $m	2013 AmGeneral Holdings Berhad $m	2013 SBI General Insurance Company Limited $m	2013 Bohai Property Insurance Company Ltd $m
I. Summarised statement of comprehensive income						
Revenue	**617**	**236**	**347**	404	153	257
Profit/(loss) after tax	**45**	**(17)**	**(17)**	44	(26)	(8)
Other comprehensive income	**(6)**	**-**	**-**	(1)	-	-
Total comprehensive income	**39**	**(17)**	**(17)**	43	(26)	(8)
II. Summarised balance sheet						
Total assets	**1,690**	**334**	**634**	1,527	209	497
Total liabilities	**(1,073)**	**(239)**	**(445)**	(974)	(143)	(324)
Net assets as at reporting date	**617**	**95**	**189**	553	66	173
Group's ownership interest	**302**	**25**	**38**	271	18	35
Other adjustments*	**50**	**62**	**69**	71	66	79
Carrying value as at 30 June	**352**	**87**	**107**	342	84	114

* Other adjustments include IFRS adjustments, foreign exchange revaluations, goodwill, intangibles, and share of profits/(loss) from financial statement date to 30 June.

D. NATURE AND EXTENT OF ANY SIGNIFICANT RESTRICTIONS

There are no significant restrictions on the ability of joint venture or associates to transfer funds to the Consolidated entity in the form of cash dividends, or to repay loans or advances made by the Consolidated entity.

E. COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital or other commitments or contingent liabilities arising from the joint venture or any of the associates that are significant to the Consolidated entity.

NOTE 27. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2014	2013
	$m	$m
A. EMPLOYEE BENEFITS PROVISION		
Annual leave	**97**	79
Long service leave	**85**	72
Cash based incentive arrangements	**106**	81
Defined benefit superannuation plans	**39**	64
Other employee benefits*	**8**	9
	335	305

* There is one defined benefit pension arrangement in Australia with a discounted liability of $6 million as at the current reporting date (2013-$7 million) involving 55 participants (2013-58) and one defined benefit pension arrangement in New Zealand with a discounted liability of $2 million as at the current reporting date (2013-$2 million) involving 34 participants (2013-36). These liabilities are met from general assets rather than assets being set aside in trust.

The employee benefits provision includes $95 million (2013-$116 million) which is expected to be settled after more than 12 months from reporting date.

B. CASH BASED INCENTIVE ARRANGEMENTS

I. Short term incentive plan

The short term incentive plan continued in operation during the current reporting year. Eligible employees have the capacity to earn a proportion of their base pay as a cash incentive annually. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 10%, 15% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

NOTE 28. SHARE BASED REMUNERATION

The provision of share based remuneration creates a link between shareholder value creation and rewarding employees. Share based remuneration encourages employee share ownership, links employee reward to the performance of the Group and assists with retention of key personnel. This encourages employees to focus on creating shareholder value over the longer term.

The obligations under share based payment arrangements are covered by the on-market purchase of IAG ordinary shares which are held in trust. The shares are purchased on or near grant date at the prevailing market price. The arrangements are managed using in-house trusts, one for Australia and one for New Zealand, which are controlled for accounting purposes and are subsidiaries of the Consolidated entity. The trustee for each trust is a subsidiary of the Consolidated entity. The trusts are administered externally.

The number of shares purchased to cover each allocation of rights is determined by the trustee based on independent actuarial advice. The trusts allow for excess shares purchased in relation to one plan to be used to meet obligations of the other plans at the trustee's discretion. The trusts held 16,547,487 shares as at 30 June 2014 (2013-13,558,821 shares) representing 0.71% (2013-0.65%) of the issued share capital. This includes shares that are not controlled for accounting purposes and so not recognised as treasury shares.

Trading in IAG ordinary shares that are awarded under the share based remuneration arrangements is covered by the same restrictions that apply to all forms of share ownership by employees. These restrictions limit an employee trading in IAG ordinary shares when they are in a position to be aware, or are aware, of price sensitive information.

Share based remuneration is provided through a range of different plans, each of which has different purposes and different rules. The share based remuneration expense amounts are included in the claims expense, other underwriting expenses and fee based, corporate and other expenses lines in the statement of comprehensive income.

A. SENIOR MANAGEMENT AND EXECUTIVE SHARE PLANS

The senior management and Executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the DAR and EPR Plans which are detailed below. The PARC approves the participation of each individual in the plans. Certain other share plan arrangements remain in place but are closed to new offers.

I. Deferred Award Rights Plan

The Deferred Award Rights Plan (DAR Plan) is the deferred portion of the short term incentive issued as rights over IAG ordinary shares.

Key terms and conditions:

- The rights are granted for nil consideration, are non-transferable, and can be settled only with existing IAG ordinary shares. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- The vesting condition is not market related and requires the participant to continue in relevant employment.
- Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price of all vested rights is a nominal value of $1 per tranche of rights exercised.
- The rights vest after a maximum two year period as determined by the Board subject to the participants continuing in relevant employment for the full period. If there is a change of control of IAG, the Board has discretion to determine if and when rights should vest.
- If the vesting condition is not met then the rights lapse. The rights also lapse where the holder chooses to forgo the rights and all rights expire seven years from grant date where they have not previously lapsed or been exercised.

The following information relates to the rights issued under the DAR Plan.

GRANT DATE	FAIR VALUE AT GRANT DATE	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	NUMBER OF RIGHTS AT 30 JUNE	
						On issue	Exercisable
2014							
19/12/2006	**$5.354**	**51,465**	**-**	**(18,186)**	**-**	**33,279**	**33,279**
27/09/2007	**$4.820**	**213,790**	**-**	**(85,770)**	**-**	**128,020**	**128,020**
18/09/2008	**$3.668**	**472,820**	**-**	**(196,220)**	**-**	**276,600**	**276,600**
27/02/2009	**$3.397**	**10,000**	**-**	**-**	**-**	**10,000**	**10,000**
25/09/2009	**$3.600**	**238,280**	**-**	**(129,380)**	**-**	**108,900**	**108,900**
25/03/2010	**$3.780**	**6,100**	**-**	**(2,900)**	**-**	**3,200**	**3,200**
06/10/2010	**$3.532**	**698,340**	**-**	**(535,800)**	**-**	**162,540**	**162,540**
03/03/2011	**$3.467**	**9,600**	**-**	**(5,400)**	**-**	**4,200**	**4,200**
21/10/2011	**$2.880**	**1,560,200**	**-**	**(1,347,600)**	**(8,000)**	**204,600**	**204,600**
17/02/2012	**$2.740**	**17,800**	**-**	**(17,800)**	**-**	**-**	**-**
26/10/2012[(a)]	**$4.291**	**3,171,500**	**-**	**(1,398,400)**	**(66,300)**	**1,706,800**	**241,450**
26/10/2012[(a)]	**$4.360**	**13,400**	**-**	**(13,400)**	**-**	**-**	**-**
25/02/2013[(a)]	**$5.467**	**41,100**	**-**	**(18,150)**	**-**	**22,950**	**5,600**
25/02/2013[(a)]	**$5.511**	**10,700**	**-**	**-**	**-**	**10,700**	**10,700**
01/11/2013[(a)]	**$5.684**	**-**	**2,431,600**	**(31,300)**	**(42,000)**	**2,358,300**	**-**
01/11/2013[(a)]	**$5.876**	**-**	**11,200**	**-**	**-**	**11,200**	**-**
11/03/2014	**$5.083**	**-**	**7,600**	**-**	**-**	**7,600**	**-**
02/04/2014	**$5.216**	**-**	**21,100**	**-**	**-**	**21,100**	**-**
		6,515,095	**2,471,500**	**(3,800,306)**	**(116,300)**	**5,069,989**	**1,189,089**

(a) Rights issued on the same grant date may have different fair values to reflect different vesting periods.

2013							
19/12/2006	$5.354	116,240	-	(62,900)	(1,875)	51,465	51,465
13/03/2007	$5.156	21,937	-	(21,937)	-	-	-
27/09/2007	$4.820	359,550	-	(142,260)	(3,500)	213,790	213,790
27/05/2008	$2.810	26,345	-	(26,345)	-	-	-
18/09/2008	$3.668	773,620	-	(293,100)	(7,700)	472,820	472,820
27/02/2009[(a)]	$3.155	10,000	-	(10,000)	-	-	-
27/02/2009[(a)]	$3.397	10,000	-	-	-	10,000	10,000
27/02/2009[(a)]	$3.311	15,000	-	(15,000)	-	-	-
25/09/2009	$3.600	899,050	-	(657,970)	(2,800)	238,280	238,280
24/11/2009	$3.770	31,640	-	(31,640)	-	-	-
25/03/2010	$3.780	19,200	-	(13,100)	-	6,100	6,100
06/10/2010	$3.532	1,601,800	-	(890,300)	(13,160)	698,340	254,200
03/03/2011[(a)]	$3.467	29,350	-	(19,750)	-	9,600	7,680
03/03/2011[(a)]	$3.492	20,000	-	(20,000)	-	-	-
21/10/2011	$2.880	3,332,800	-	(1,712,450)	(60,150)	1,560,200	264,300
17/02/2012	$2.740	70,800	-	(47,700)	(5,300)	17,800	-
26/10/2012[(a)]	$4.291	-	3,525,200	(235,900)	(117,800)	3,171,500	41,400
26/10/2012[(a)]	$4.360	-	13,400	-	-	13,400	-
25/02/2013[(a)]	$5.467	-	41,100	-	-	41,100	4,600
25/02/2013[(a)]	$5.511	-	10,700	-	-	10,700	-
		7,337,332	3,590,400	(4,200,352)	(212,285)	6,515,095	1,564,635

(a) Rights issued on the same grant date may have different fair values to reflect different vesting periods.

The weighted average share price for rights exercised for the year ended 30 June 2014 was $5.74 (2013-$4.84).

The fair value of the rights is calculated as at the grant date using a Black Scholes valuation.

		SIGNIFICANT FACTORS AND ASSUMPTIONS	
2014			
Grant date	**1/11/2013**	**11/03/2014**	**2/04/2014**
Share price on grant date ($)	**$6.13**	**$5.41**	**$5.54**
Exercise price ($)	**$1 per tranche exercised**	**$1 per tranche exercised**	**$1 per tranche exercised**
Risk free interest rate (%)	**3.25%**	**3.13%**	**3.24%**
Expected dividend yield (%)	**5.71%**	**6.44%**	**6.63%**
Expected life of rights (years)	**1 or 2 years**	**1 or 2 years**	**1 or 2 years**
2013			
Grant date		26/10/2012	25/02/2013
Share price on grant date ($)		$4.51	$5.69
Exercise price ($)		$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)		3.00%	3.11%
Expected dividend yield (%)		3.70%	3.96%
Expected life of rights (years)		1 or 2 years	1 or 2 years

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

II. Executive Performance Rights Plan

The Executive Performance Rights Plan (EPR Plan) is the Group's long term incentive plan issued as rights over IAG ordinary shares.

Key terms and conditions:

- The rights are granted for nil consideration, are non-transferable, and for Series 1 to 5 can be settled only with IAG ordinary shares. From Series 6 onwards, the rights may be settled in cash or IAG ordinary shares, subject to Board discretion. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- Where the rights vest (the holder becomes entitled to exercise the right), the EPR Plan entitles participating employees to acquire either one IAG ordinary share or its equivalent cash value as determined by the Board for each right. There is no exercise price.
- Each allocation is split equally into two portions and is subject to different performance hurdles. The first vesting condition is not market related and requires the participant to continue relevant employment. The second set of vesting conditions are as follows:
  - 50% is subject to a return on equity hurdle (ROE allocation);
  - 50% is subject to a total shareholder return hurdle (TSR allocation).

If a participant ceases employment with IAG before the performance conditions are tested, their unvested rights will generally lapse.

- Under the TSR allocation, IAG's TSR is assessed against the TSR of a peer group of entities. For allocations made prior to 30 June 2009, the peer group consists of entities in the S&P/ASX 100 Index and for allocations made after 30 June 2009, the peer group consists of entities in the top 50 industrials within the S&P/ASX 100 Index. The performance hurdle is set with a tiered vesting scale:
  - Maximum vesting of 100% if IAG's relative TSR is equal or larger than the 75th percentile of the peer group;
  - A vesting of 0% if IAG's TSR is below the 50th percentile of the peer group.

- The ROE hurdle compares IAG's performance with IAG's weighted average cost of capital (WACC), where the Board determines the WACC. The tiered vesting scale is:
  - Maximum vesting of 100% if ROE is larger than 1.6 x WACC (1.8 x WACC for rights granted between 1 July 2008 to 30 June 2010);
  - A vesting at 0% if ROE is below 1.2 x WACC (1.5 x WACC for rights granted between 1 July 2008 to 30 June 2010, 1.3 x WACC for rights granted before 30 June 2008).

- If there is a change of control of IAG, the Board has discretion to determine if and when rights should vest.

The following information relates to the rights issued under the EPR Plan:

GRANT DATE	FAIR VALUE AT GRANT DATE (TSR)	FAIR VALUE AT GRANT DATE (ROE)	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	NUMBER OF RIGHTS AT 30 JUNE	
							On issue	Exercisable
2014								
29/10/2007	**$2.870**	**$4.310**	**97,940**	**-**	**(93,840)**	**-**	**4,100**	**4,100**
13/03/2008	**$1.630**	**$2.710**	**5,002**	**-**	**(5,002)**	**-**	**-**	**-**
18/09/2008	**$2.530**	**$3.410**	**1,934,290**	**-**	**(315,025)**	**(1,582,250)**	**37,015**	**37,015**
27/02/2009	**$2.570**	**$3.150**	**127,500**	**-**	**(2,500)**	**(125,000)**	**-**	**-**
25/09/2009	**$2.480**	**$3.480**	**2,386,676**	**-**	**(777,346)**	**(360,500)**	**1,248,830**	**110,680**
24/11/2009	**$2.590**	**$3.650**	**569,232**	**-**	**(173,932)**	**-**	**395,300**	**-**
25/03/2010	**$2.460**	**$3.600**	**148,608**	**-**	**(17,908)**	**(130,700)**	**-**	**-**
06/10/2010	**$2.420**	**$3.380**	**3,980,700**	**-**	**(3,738,400)**	**-**	**242,300**	**242,300**
03/03/2011	**$2.270**	**$3.300**	**530,600**	**-**	**(530,600)**	**-**	**-**	**-**
21/10/2011	**$1.860**	**$2.690**	**4,757,600**	**-**	**-**	**(82,400)**	**4,675,200**	**-**
26/10/2012	**$3.046**	**$4.085**	**4,973,700**	**-**	**-**	**(85,300)**	**4,888,400**	**-**
25/02/2013	**$3.977**	**$5.186**	**4,000**	**-**	**-**	**-**	**4,000**	**-**
01/11/2013	**$3.036**	**$5.266**	**-**	**3,221,400**	**-**	**-**	**3,221,400**	**-**
11/03/2014	**$1.920**	**$4.663**	**-**	**20,900**	**-**	**-**	**20,900**	**-**
			19,515,848	**3,242,300**	**(5,654,553)**	**(2,366,150)**	**14,737,445**	**394,095**
2013								
29/10/2007	$2.870	$4.310	467,240	-	(33,480)	(335,820)	97,940	97,940
29/11/2007	$2.350	$3.680	170,000	-	(22,500)	(147,500)	-	-
13/03/2008	$1.630	$2.710	20,360	-	(1,080)	(14,278)	5,002	5,002
27/05/2008	$2.120	$3.220	6,800	-	(900)	(5,900)	-	-
18/09/2008	$2.530	$3.410	3,002,582	-	(669,751)	(398,541)	1,934,290	320,395
27/02/2009	$2.570	$3.150	167,500	-	(40,000)	-	127,500	-
25/09/2009	$2.480	$3.480	3,012,200	-	(586,796)	(38,728)	2,386,676	253,820
24/11/2009	$2.590	$3.650	790,600	-	(221,368)	-	569,232	-
25/03/2010	$2.460	$3.600	171,400	-	(22,792)	-	148,608	25,200
06/10/2010	$2.420	$3.380	4,093,200	-	-	(112,500)	3,980,700	-
03/03/2011	$2.270	$3.300	530,600	-	-	-	530,600	-
21/10/2011	$1.860	$2.690	4,882,400	-	-	(124,800)	4,757,600	-
17/02/2012	$1.630	$2.600	52,500	-	-	(52,500)	-	-
26/10/2012	$3.046	$4.085	-	5,122,800	-	(149,100)	4,973,700	-
25/02/2013	$3.977	$5.186	-	4,000	-	-	4,000	-
			17,367,382	5,126,800	(1,598,667)	(1,379,667)	19,515,848	702,357

The weighted average share price for rights exercised for the year ended 30 June 2014 was $5.74 (2013-$4.84).

The fair value of the rights is calculated as at the grant date using Black Scholes (for ROE performance hurdle) and Monte Carlo simulation (for TSR performance hurdle) models. The valuations take into account the probability of achieving the market related performance hurdle.

Some of the assumptions, including expected share price volatility, are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

SIGNIFICANT FACTORS AND ASSUMPTIONS		
2014		
Grant date	**1/11/2013**	**11/03/2014**
Share price on grant date ($)	**$6.13**	**$5.41**
Risk free interest rate (%)	**5.71%**	**3.13%**
Expected dividend yield (%)	**3.25%**	**6.44%**
Expected life of rights (years)*	**3 or 4 years**	**3 or 4 years**
2013		
Grant date	26/10/2012	25/02/2013
Share price on grant date ($)	$4.51	$5.69
Risk free interest rate (%)	3.00%	3.11%
Expected dividend yield (%)	3.70%	3.96%
Expected life of rights (years)*	3 or 4 years	3 or 4 years

* The expected life for the ROE rights is three years and four years for TSR rights.

B. EMPLOYEE SHARE PLANS

Offers were made under the employee share plans during the year ended 30 June 2014 in Australia and New Zealand which gave employees the opportunity to own a stake in IAG and share in the Group's future success.

Under the plans, shares are purchased under salary sacrifice arrangements, allowing employees to acquire shares in a tax effective manner, and IAG contributes towards 10% of the cost of the share purchase. IAG ordinary shares taken up through the plans do not incur any brokerage. The salary sacrifice arrangements and structure of the plans differ between jurisdictions to comply with local legislation and utilise tax concessions.

NOTE 29. SUPERANNUATION

Contributions are made to a number of superannuation plans in various countries. Entry to all defined benefit superannuation plans is closed to new members. New employees are provided with defined contribution arrangements. The defined benefit contribution plans provide benefits for members or their dependants in the form of lump sum or pension payments generally upon retiring from relevant employment.

A. DEFINED CONTRIBUTION SUPERANNUATION ARRANGEMENTS

Contributions to the plans are made in accordance with the governing rules of each plan together with relevant legislative requirements in each geographical region. The contributions are generally based on a percentage of employees' salaries.

The Consolidated entity is not exposed to risks or rewards of the defined contribution arrangements and has no obligations beyond the payment of contributions. There were no employer contributions payable at the end of the year for defined contribution members (2013-$nil).

B. DEFINED BENEFIT SUPERANNUATION ARRANGEMENTS

There are a number of defined benefit superannuation plans in the Group. Contributions to the plans are made in accordance with the governing rules of each plan and the contribution recommendations of an independent actuary. In contrast to defined contribution superannuation arrangements, the future cost of the defined benefit superannuation plans is not known with certainty in advance. The benefits for defined benefit members are generally based on length of service and/or final average salary and/or age together with the member's own contributions (if any). The net financial positions of the plans are recognised on the balance sheet.

I. Australia

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which the superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

The Plan's trustee is responsible for the governance of the plan. The trustee has a legal obligation to act solely in the best interest of Plan beneficiaries. The trustee has the following roles:

- administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- management and investment of the Plan assets; and
- compliance with superannuation law and other applicable regulations.

As the prudential regulator, APRA licences and supervises regulated superannuation plans.

All Australian employees with defined benefit superannuation arrangements are members of the IAG & NRMA Superannuation Plan (IAG Plan). There were 448 members as at reporting date (2013-502). The Consolidated entity has contributed $9 million to the members during the period (2013-$19 million). There were no employer contributions payable at the end of the year (2013-$nil).

The employer contribution rate for Australian defined benefit members was 17.5% with a quarterly payment of $1 million. The Group has agreed with the Trustee to target the value of the Plan's assets to 120% of defined benefit vested benefits to manage risk against possible future adverse market fluctuations. Once the target vested benefit of 120% is achieved, the $1 million per quarter deficiency contributions will cease.

The future expected contributions to the IAG Plan for the year ending 30 June 2015 are $8 million.

There are no assets and liability matching schemes adopted by the Plan.

II. New Zealand

The New Zealand operation contributes to one defined benefit superannuation arrangement being the AMI Superannuation Scheme. The Plan had 174 (2013-190) defined benefit members and a $2 million (2013-$4 million) net deficit as at reporting date. The fair value of the Plan assets was $28 million (2013-$25 million) and the present value of the defined benefit obligation was $30 million (2013-$29 million) at reporting date.

III. Financial information of defined benefit arrangements

a. REPORTING DATE BALANCES

	IAG PLAN	
	2014	2013
	$m	$m
Fair value of plan assets	**163**	153
Present value of defined benefit obligation (net discount rate)	**(200)**	(213)
Net asset/(liability) recognised on the balance sheet	**(37)**	(60)
b. RECONCILIATION OF MOVEMENTS IN NET ASSET/(LIABILITY)		
Net asset/(liability) at the beginning of the financial year	**(60)**	(111)
Included in profit and loss		
Current service cost	**(7)**	(7)
Past service cost	**(1)**	(1)
Net interest cost	**(2)**	3
Included in other comprehensive income		
Return on plan assets, excluding interest income	**14**	9
Gains/(losses) from change in demographic assumptions	**-**	4
Gains/(losses) from change in financial assumptions	**5**	22
Gains/(losses) from liability experience	**5**	2
Other		
Contributions by employers	**9**	19
Total net amount recognised at reporting date valuation	**(37)**	(60)
c. RECONCILIATION OF MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION		
Defined benefit obligation at the beginning of the financial year	**213**	252
Current service cost	**7**	7
Past service cost	**1**	1
Interest expense/(income)	**7**	7
(Gains)/losses from change in demographic assumptions	**-**	(4)
(Gains)/losses from change in financial assumptions	**(5)**	(22)
(Gains)/losses from liability experience	**(5)**	(2)
Contributions by plan participants	**1**	1
Benefits paid	**(16)**	(23)
Taxes, premiums & expenses paid	**(3)**	(4)
Defined benefit obligation at the end of the financial year	**200**	213
d. RECONCILIATION OF MOVEMENTS IN THE FAIR VALUE OF ASSETS		
Fair value of plan assets at the beginning of the financial year	**153**	141
Interest (expense)/income	**5**	10
Return on plan assets, excluding interest income	**14**	9
Contributions by employers	**9**	19
Contributions by plan participants	**1**	1
Benefits paid	**(16)**	(23)
Taxes, premiums and expenses paid	**(3)**	(4)
Fair value of plan assets at the end of the financial year	**163**	153

The asset ceiling had no impact on the net defined liability recognised in the balance sheet.

e. PLAN ASSETS

The percentage invested in each asset class at reporting date is shown in the table below:

	IAG PLAN	
	2014	2013
	%	%
Australian shares	**29.0**	30.0
Overseas shares	**29.0**	26.0
Listed property trusts	**10.0**	11.0
Fixed interest	**22.0**	23.0
Cash	**5.0**	6.0
Other	**5.0**	4.0

To determine the fair value of the investment fund that the Plan assets are invested in, significant observable inputs are used (fair value hierarchy level 2).

The direct Australian equity mandates of the IAG Plan do not include any shares issued by the Consolidated entity or any property that is occupied by the Consolidated entity. The IAG Plan does invest in Australian equity investments in unit trusts or other pooled vehicles which may contain shares issued by the Consolidated entity.

f. ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used in determining the financial position of the plans include:

	IAG PLAN	
	2014	2013
	%	%
Discount rate (gross)*	**4.0**	3.8
Expected future salary increases	**4.0**	4.0
Future pension increases - adult/child	**2.5/0.0**	2.5/0.0

* The discount rate for the IAG Plan has been determined by reference to the market yields on 12 year (2013-10 year) government bonds in Australia.

The weighted average duration of the defined benefit obligation is 10.6 years (2013-11.9 years).

g. SENSITIVITY OF MEASUREMENT TO ACTUARIAL ASSUMPTIONS

The impact on the Plan's net liability to changes in key actuarial assumptions is summarised below. The sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. The methods and assumptions used in preparing the sensitivity analysis did not change compared to the prior year.

ASSUMPTION	MOVEMENT IN ASSUMPTION	**IAG PLAN 2014 DEFINED BENEFIT OBLIGATION $m**
Discount rate (gross)	+0.5%	**12**
	- 0.5%	**(11)**
Expected future salary increase	+0.5%	**(5)**
	- 0.5%	**5**
Future pension increases - adult/child	+0.5%	**(6)**
	- 0.5%	**6**

h. RISK EXPOSURE

There are a number of risks to which the Plan exposes the employer, including the measurement process of the defined benefit obligation which involves estimates and assumptions, based on experience and other reasonable factors. Differences in actuarial valuations compared to actual performance can impact the expense recognised, movements in other comprehensive income and the value of plan assets and liability.

The Group's risk management framework provides assurance risks arising from the Plan are soundly managed (refer to the risk management note for further details). The Plan supplements its risk management approach and includes the development of a Risk Management Strategy, policies and processes to meet superannuation regulatory obligations.

i. FUNDING OBLIGATIONS FOR THE IAG PLAN

The financial information disclosed below has been determined in accordance with AAS 25 Financial Reporting by Superannuation Plans, using the Attained Age Actuarial Funding method.

	IAG PLAN	
	2014	2013
	$m	$m
Net market value of plan assets	**163**	153
Present value of accrued benefits	**(150)**	(152)
Defined benefit surplus/(deficit)	**13**	1
Vested benefits	**146**	141

	IAG PLAN	
	2014	2013
	%	%
The principal actuarial assumptions used in determining the financial position of the IAG Plan in accordance with AAS 25 and the funding recommendation include:		
Expected investment returns – pension assets/other assets (gross)	**7.5**	7.5
Expected future salary increases	**4.0**	4.0
Future pension increases – adult/child	**2.5/0.0**	2.5/0.0

The accrued benefits are determined on the basis of the present value of expected future payments that arise from membership up to the measurement date. The accrued benefits are determined by reference to expected future salary levels and are discounted using a market based, risk adjusted discount rate. Vested benefits are the benefits which would be payable to members if they all voluntarily resigned as at the reporting date.

The contribution recommendation uses a different actuarial methodology and a different discount rate assumption to that used in determining the financial position for measurement on the balance sheet of the employer sponsor.

NOTE 30. COMMITMENTS

	CONSOLIDATED	
	2014	2013
	$m	$m
A. CAPITAL AND OTHER COMMITMENTS		
I. Capital commitments		
Software development	**14**	32
II. Other commitments		
Software licence and rental	**38**	26
Other	**7**	8
	59	66
B. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	**134**	116
Due within 1 to 2 years	**118**	111
Due within 2 to 5 years	**263**	277
Due after 5 years	**85**	113
II. Equipment		
Due within 1 year	**19**	11
Due within 1 to 2 years	**18**	14
Due within 2 to 5 years	**24**	26
Due after 5 years	**-**	9
	661	677

Certain property, motor vehicles and computer equipment are leased under non-cancellable operating leases. Most leases are subject to annual reviews with increases subject to a set percentage or based on either movements in consumer price indices or operating criteria. Where appropriate, a right of renewal has been incorporated into the lease agreements at which time all terms and conditions may be renegotiated. There are no options to purchase the relevant assets on expiry of the lease.

NOTE 31. CONTINGENCIES

The Group is exposed to a range of contingencies. Some are specific to instruments or transactions, others relate more to risks faced in the normal course of business.

A. CONTINGENT LIABILITIES

Contingent liabilities are not recognised on the balance sheet but are disclosed here where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure. The measurement involves judgement.

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include:

- litigation arising out of insurance policies; and
- undertakings for maintenance of net worth and liquidity support to subsidiaries in the Consolidated entity. It is normal practice to provide wholly owned subsidiaries with support and assistance as may be appropriate with a view to enabling them to meet their obligations and to maintain their good standing. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation.

It is not believed that there are any other potential material exposures to the Consolidated entity and there are no known events that would require it to satisfy the guarantees or take action under a support agreement.

B. FIDUCIARY ACTIVITIES

The Consolidated entity's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in the Consolidated entity's balance sheet had a fair value as at the current reporting date of $638 million (2013-$524 million). This does not include the investment by third parties in the IAG Asset Management Wholesale Trusts presented as non-controlling interests in unitholders' funds on the balance sheet. The Consolidated entity is exposed to operational risk relating to managing these funds on behalf of third parties.

NOTE 32. RELATED PARTY DISCLOSURES

A. CONTROLLING ENTITIES

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

The Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries (information in relation to ownership interests is provided in the subsidiaries note).

The Group at 30 June 2014 operated under a devolved model with shared services through the use of dedicated units (such as head office finance providing accounting and processing services to operational entities) and entities (such as dedicated entities that provide employee services and reinsurance services) which provide services across the Group. All such intragroup transactions are charged to the relevant entities on normal commercial terms and conditions and on a direct and actual cost recovery basis or time allocation basis. Certain entities are economically dependent on other entities in the Group. There are also loans between entities in the Group. All transactions that have occurred among the subsidiaries within the Group have been eliminated for consolidation purposes.

B. KEY MANAGEMENT PERSONNEL

I. Details of compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity. It is important to note that the Company's Non-Executive Directors are specifically required to be included as KMP in accordance with AASB 124 Related Party Disclosures. However, the Non-Executive Directors do not consider that they are part of 'management'.

The aggregate compensation of the KMP is set out below:

	CONSOLIDATED	
	2014	2013
	$000	$000
Short term employee benefits	**17,349**	17,042
Post employment benefits	**308**	364
Other long term benefits	**203**	130
Termination benefits	**-**	524
Share based payments	**11,278**	11,812
	29,138	29,872

The compensation disclosed in the table above represents the KMP's estimated compensation received from the Group in relation to their involvement in the activities with the Consolidated entity.

C. OTHER RELATED PARTIES

Contributions are made to various superannuation plans, both defined contribution and defined benefit plans. Information regarding transactions with the plans is provided in the superannuation note.

NOTE 33. DERIVATIVES

A. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS APPLIED

I. Net investment hedges

The foreign currency exposures arising on translation of net investments in foreign operations are hedged using forward exchange contracts and the designation of certain foreign currency borrowings as hedging instruments.

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

II. Reporting date positions

The notional amount and fair value of derivative financial instruments, together with a maturity profile, are provided below:

	CONSOLIDATED								
	2014						2013		
	Maturity profile			Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	1 to 5 years	Over 5 years						
	$m	$m	$m	$m	$m	$m	$m	$m	$m
a. NET INVESTMENT HEDGES									
Forward foreign exchange contracts	**1,304**	**-**	**-**	**1,304**	**9**	**(6)**	2,320	23	(67)

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

I. Reporting date positions

The notional amount and fair value of derivative financial instruments, together with a maturity profile, are provided below:

	CONSOLIDATED								
	2014						2013		
	Maturity profile			Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	1 to 5 years	Over 5 years						
	$m	$m	$m	$m	$m	$m	$m	$m	$m
a. PRESENTED IN INVESTMENTS (INVESTMENT RELATED DERIVATIVES)									
Interest rate swaps	**5**	**69**	**236**	**310**	**8**	**-**	-	-	-
Options	**(2)**	**-**	**-**	**(2)**	**-**	**-**	-	-	-
Bond futures	**3,415**	**-**	**-**	**3,415**	**-**	**(1)**	4,032	-	(2)
Share price index futures	**271**	**-**	**-**	**271**	**-**	**-**	318	-	-
Forward foreign exchange contracts	**445**	**-**	**-**	**445**	**6**	**-**	607	-	(38)
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)									
Forward foreign exchange contracts	**302**	**-**	**-**	**302**	**7**	**-**	484	13	(1)
Interest rate swaps	**50**	**-**	**-**	**50**	**-**	**-**	550	-	-

In addition to the derivatives described above, certain contracts entered into include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments. The fair value of the embedded derivatives was nil as at 30 June 2014 (2013-nil).

NOTE 34. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the crucial and equally important objective of providing an appropriate level of capital to protect policyholders' and lenders' interests and satisfy regulators.

The Group actively considers its risk appetite through the holistic implementation of strategies around identified key risk levers of underwriting, reinsurance, capital, asset allocation and risk management. The target level of capitalisation for the Group is assessed by consideration of factors including:

- the probability of financial ruin over the next one to three years;
- the probability of falling below the APRA prescribed capital amount (PCA) over the next one to three years;
- other stakeholder perspectives on capitalisation, including rating agency capital models and associated ratings; and
- domestic and international levels of capitalisation.

The amount of capital required that fulfils these risk appetite factors varies according to the business underwritten, extent of reinsurance and asset allocation and is estimated using dynamic financial analysis modelling. For ease of communication, internally and externally, the Group has translated the outcome into a multiple of PCA by applying the APRA prescribed methodology for a Level 2 Insurance Group.

Internal policies are in place to ensure significant deviations from this benchmark is considered at the Board level as to how any shortfall should be made good or any surplus utilised.

I. Regulatory capital

All insurers within the Group that carry on insurance business in Australia are registered with APRA and are subject to APRA prudential standards. IAG uses the standardised framework detailed in the relevant prudential standards to calculate the regulatory capital requirements that must be held to meet policyholder obligations. It is the Group's policy to ensure that each of the licenced insurers maintains an adequate capital position from an entity perspective.

From 1 January 2013, APRA revised the regulatory capital adequacy requirements applicable to all APRA authorised insurers and insurance groups. Under the new capital regulatory regime, the Group has maintained its consistent risk appetite and set the following long term target capital ranges from 1 January 2013:

- a total capital position equivalent to 1.4-1.6 times the PCA, compared to a regulatory requirement of 1.0 times; and
- Common Equity Tier 1 capital of 0.9-1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

II. Economic capital

In conjunction with the above, consideration is given to the operational capital needs of the business. Targeting a capital multiple above the minimum regulatory requirement aims to ensure the ongoing strength and security of the Group whilst suitably protecting policyholders and lenders.

An important influence on the capital levels is the payment of dividends. The Consolidated entity aims to maintain cash earnings payouts within a ratio range approved by the Board (refer to note 9).

The capital objectives are achieved through dynamic management of the balance sheet and capital mix, the use of a risk based capital adequacy framework for capital needs that relies on explicit quantification of uncertainty or risk and the use of modelling techniques such as dynamic financial analysis which provide the capacity to understand the risk/return trade-off as well as valuable inputs to the capital management process. The influence on capital such as product mix, reinsurance program, catastrophe exposure, investment strategy, profit margins and capital structure are all assessed through the dynamic financial analysis modelling.

B. CAPITAL COMPOSITION

The Group's capital comprises ordinary equity and interest bearing liabilities. The balance sheet capital mix at reporting date was as shown in the table below:

		CONSOLIDATED	
	Target	**2014**	2013
	%	%	%
Ordinary equity less goodwill and intangible assets	**60-70**	**65.0**	65.5
Interest bearing liabilities - hybrid securities and debt	**30-40**	**35.0**	34.5
Total capitalisation		**100**	100

C. REGULATORY CAPITAL COMPLIANCE

The PCA calculation is based on applying the APRA Level 2 Insurance Group requirements.

As at 30 June 2014, the Group capital position includes the acquired insurance underwriting business of Wesfarmers Limited in Australia and New Zealand (refer to the acquisitions and disposals of businesses note for further detail).

	CONSOLIDATED	
	2014	2013
	$m	$m
I. Common Equity Tier 1 capital		
Ordinary shares	**6,775**	5,353
Reserves	**38**	63
Retained earnings	**(151)**	(568)
Excess technical provisions (net of tax)	**914**	677
Minority interests	**226**	202
Less: Deductions	**(4,514)**	(2,929)
Common Equity Tier 1 capital (CET1 capital)	**3,288**	2,798
II. Additional Tier 1 capital		
Hybrid equities	**817**	872
Total Tier 1 capital	**4,105**	3,670
III. Tier 2 capital		
Subordinated term notes	**876**	592
Total Tier 2 capital	**876**	592
Total regulatory capital	**4,981**	4,262
IV. Prescribed Capital Amount (PCA)		
Insurance risk charge	**1,624**	1,434
Insurance concentration risk charge	**225**	150
Diversified asset risk charge	**1,441**	1,338
Asset concentration risk charge	**-**	-
Aggregation benefit	**(729)**	(653)
Operating risk charge	**335**	289
Total PCA	**2,896**	2,558
PCA multiple	**1.72**	1.67
CET1 multiple	**1.14**	1.09

D. CREDIT RATING

Key wholly owned insurers within the Group had the following ratings published by Standard & Poor's (S&P) as at the current reporting date. S&P last reviewed these ratings on 2 July 2014.

ENTITY	ISSUER CREDIT RATING	FINANCIAL STRENGTH RATING
Parent		
Insurance Australia Group Limited	**A/Stable**	**n/a**
Licenced insurers		
Insurance Australia Limited	**AA-/Stable**	**AA-/Stable**
IAG New Zealand Limited	**AA-/Stable**	**AA-/Stable**
CGU Insurance Limited	**AA-/Stable**	**AA-/Stable**
Swann Insurance (Aust) Pty Ltd	**AA-/Stable**	**AA-/Stable**
IAG Re Labuan (L) Berhad	**n/a**	**AA-/Stable**
IAG Re Australia Limited	**AA-/Stable**	**AA-/Stable**
IAG Re Singapore Pte Ltd	**AA-/Stable**	**AA-/Stable**
Lumley General Insurance (NZ) Limited	**A+/Stable**	**A+/Stable**
WFI Insurance Limited	**A+/Stable**	**A+/Stable**

NOTE 35. NET TANGIBLE ASSETS

	CONSOLIDATED	
	2014	2013
	$	$
Net tangible assets per ordinary share	**1.29**	1.38

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

NOTE 36. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2014	2013
	$000	$000
A. KPMG		
I. Assurance services		
Audit of the financial statements prepared for the Parent and subsidiaries	**6,883**	7,430
Audit of statutory returns in accordance with regulatory requirements	**1,109**	1,092
Other assurance services	**184**	440
	8,176	8,962
II. Advisory services		
Taxation services	**905**	628
Due diligence and other services on acquisitions, divestments and capital transactions	**978**	488
Other	**277**	155
	2,160	1,271
B. OTHER AUDITORS		
I. Assurance services		
Audit of the financial statements prepared for subsidiaries	**873**	27
Assurance related to regulatory requirements	**164**	-
Total remuneration of auditors	**11,373**	10,260

NOTE 37. PARENT ENTITY DISCLOSURES

The ultimate Parent entity in the Consolidated entity is Insurance Australia Group Limited which is incorporated in Australia. The following information of the Parent entity is disclosed as required by the current regulatory requirements in Australia.

	PARENT	
	2014	2013
	$m	$m
A. FINANCIAL RESULTS		
Profit/(loss) for the year	**769**	2,227
Total comprehensive income and (expense) for the year, net of tax	**769**	2,227
B. FINANCIAL POSITION		
Current assets	**344**	304
Total assets	**13,401**	11,532
Current liabilities	**370**	220
Total liabilities	**3,882**	3,396
C. SHAREHOLDERS' EQUITY		
Share capital	**6,775**	5,353
Reserves	**(12)**	(15)
Retained earnings	**2,756**	2,798
Total shareholders' equity	**9,519**	8,136

Current liabilities exceeded current assets by $26 million as at 30 June 2014, primarily due to a $135 million payable to Wesfarmers Limited. Due to the operation of a significant loan facility between the Parent and its controlled entities, the Parent entity has the ability to pay its debts as and when they become due and payable. Total assets of the Parent entity exceeded total liabilities by $9,519 million.

D. CONTINGENT LIABILITIES

Contingent liabilities are not recognised on the balance sheet but are disclosed where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure. The measurement involves judgement.

There are no known material exposures to the Parent or events that would require it to satisfy the guarantees or take action under a support agreement.

E. COMMITMENTS

The Parent has no material commitments.

NOTE 38. EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the current reporting year ended 30 June 2014.

A. FINAL DIVIDEND

On 19 August 2014, the Board determined to pay a final dividend of 26 cents per share, 100% franked. The dividend will be paid on 8 October 2014. The dividend reinvestment plan will operate by acquiring shares on market for participants with no discount applied.

B. IAG NEW OPERATING MODEL

On 22 May 2014 the Group announced it would implement a new operating model for its Australian operations effective from 1 July 2014, to create a more customer-focused and efficient organisation. The new model will allow IAG to better leverage its scale and insurance expertise to deliver better outcomes for its customers, partners, people and shareholders. From 1 July 2014, in Australia IAG will operate under three divisions:

- Personal Insurance, led by Andy Cornish, formerly Chief Executive of Australia Direct, this division provides personal insurance products;
- Commercial Insurance, led by Peter Harmer, formerly Chief Executive of CGU, this division provides insurance to business customers; and
- Enterprise Operations, led by Alex Harrison, formerly Chief Operating Officer for Australia Direct, this division provides support services to Personal Insurance and Commercial Insurance.

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 38, including all the remuneration disclosures that are contained in the Remuneration Report of the Directors' Report, are in accordance with the Corporations Act 2001 including:
  - giving a true and fair view of the financial position of the Company and Consolidated entity as at 30 June 2014 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date;
  - complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A; and
- the Remuneration Report of the Directors' Report complies with the Corporations Act 2001 and Australian Accounting Standards; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declaration required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2014.

Signed at Sydney this 19th day of August 2014 in accordance with a resolution of the Directors.

Michael Wilkins
Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Insurance Australia Group Limited (Company), which comprises the consolidated balance sheet as at 30 June 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1.A, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

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

AUDITOR'S OPINION

In our opinion:

- the financial report of the Group is in accordance with the Corporations Act 2001, including:
  - giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - complying with Australian Accounting Standards and the Corporations Regulations 2001.
- the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included on pages 27 to 47 of the Directors' Report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2014 complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
19 August 2014

SHAREHOLDER INFORMATION

Information about Insurance Australia Group Limited including company announcements, presentations and reports can be accessed at www.iag.com.au.

ASX CODES

Insurance Australia Group Limited's shares are listed on the ASX under:

- IAG (ordinary shares); and
- IAGPC (convertible preference shares).

Insurance Australia Group Limited's wholly owned subsidiary IAG Finance (New Zealand) Limited issued reset exchangeable securities (RES) in January 2005 and are listed on the ASX under IANG.

ANNUAL REPORT

Amendments to the Corporations Act 2001 have changed the obligations of companies regarding the provision of annual reports to shareholders. The default option for receiving annual reports has changed from a printed copy to an electronic copy via IAG's website at www.iag.com.au.

ANNUAL GENERAL MEETING

The 2014 annual general meeting (AGM) of Insurance Australia Group Limited will be held on Thursday, 30 October 2014 commencing at 10am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, Australia. The AGM will be webcast live on the internet at www.iag.com.au and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2014 AGM at www.iag.com.au. The information required to log on and use online voting is shown on your voting form.

SHAREHOLDER QUESTIONS

If you would like to submit a written question to the Company or the Company's auditor in regard to the AGM or any of the Resolutions to be discussed please use the form supplied and return it with your completed Voting Form in the pre addressed envelope provided or by fax to +61 (0)3 9473 2555. Please note your questions for the auditor must be received by 5pm on Thursday, 23 October 2014.

You may also submit a question, after completing your voting instructions online at www.iag.com.au. Members will also be given a reasonable opportunity to ask questions of the Company and the auditor at the AGM.

During the course of the AGM IAG intends to answer as many of the frequently asked questions as practicable but will not be responding to individual questions. Responses to the most commonly asked questions will be added to the website at www.iag.com.au/shareholder/agm.

DIVIDEND PAYMENT METHODS

Insurance Australia Group Limited no longer issues shareholders resident in Australia dividend payments by cheque. Shareholders should provide the share registry with their alternative instructions as detailed below:

IAG ORDINARY SHAREHOLDERS

- Paid directly into a New Zealand bank account or to an Australian bank, credit union, building society or nominated account; or
- Eligible shareholders can choose to participate in IAG's Dividend Reinvestment Plan (DRP), if available, providing the option to increase your shareholding without incurring brokerage or GST.

IAGPC CONVERTIBLE PREFERENCE SHAREHOLDERS

- Paid directly into an Australian bank, credit union, building society or nominated account.

MANAGE YOUR HOLDING

Using your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address you can view your holding online through IAG's share registry, Computershare, by following the easy prompts on their website at www.investorcentre.com where you will be able to:

- view your holding balance;
- review your dividend payment history;
- access shareholder forms; and
- retrieve holding statements, including recent dividend payment advices.

The share registry investor centre site will also allow you to update or add details to your shareholding. If you wish to amend or update any of the current details you will be asked to register by choosing a User ID and Password which you can easily remember for additional security purposes.

You will also be asked to enter answers to three personal questions for verification purposes should you forget your password in the future.

If you have previously used the Investor Centre site you will be asked to key in your password only.

Once you have completed these steps you are then able to update your details and submit your changes to the share register including:

- change or amend your address if you are registered with an SRN;
- nominate or amend your direct credit payment instructions;
- set up or amend your DRP instructions;
- sign up for electronic shareholder communications, including the annual report via email; and
- add/change TFN/ABN details.

A confirmation/receipt number will be shown on screen for your online transaction which should be recorded should you have a question in the future.

You are strongly advised to lodge your TFN, ABN or exemption. If you choose not to lodge these details with the share registry, then IAG is obliged to deduct tax at the highest marginal tax rate (plus the Medicare levy) from the unfranked portion of any dividend or interest payment.

Shareholders may also complete a number of transactions or request a form over the phone by contacting the share registry on 1300 360 688.

EMAIL ALERT SERVICE

You can register to receive an email alert advising of new IAG media releases, financial announcements or presentations. You simply need to visit IAG's website at www.iag.com.au, click on the email alert button in the right hand margin and register your email address.

IAG has improved its email alert service in the past year so you can now choose to receive email alerts about specific subjects (annual meetings, annual reports, careers information, company announcements, government submissions, results and sustainability reports).

EMAIL ENQUIRIES

If you have a question, you can email your enquiry directly to IAG's share registry at iag@computershare.com.au. If your question relates to an IAG company matter and the answer is not on IAG's website, you can email your question to investor.relations@iag.com.au.

ORDINARY SHARES INFORMATION

IMPORTANT DATES*	2014
IAG year end	30 June
Full year results and dividend announced	19 August
Annual report and notice of meeting mailout commences	8 September
Record date for final dividend	10 September
Final dividend paid	8 October
Written questions for the auditor close (5pm)	23 October
Proxy return close (10am)	28 October
Annual general meeting (10am)	30 October
IAG half year end	31 December

* Please note dates are subject to change.

TWENTY LARGEST ORDINARY SHAREHOLDERS AS AT 31 JULY 2014	NUMBER OF SHARES	% OF ISSUED CAPITAL
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	**422,139,328**	**18.03**
J P MORGAN NOMINEES AUSTRALIA LIMITED	**380,557,465**	**16.25**
NATIONAL NOMINEES LIMITED	**253,823,634**	**10.84**
CITICORP NOMINEES PTY LIMITED	**112,179,507**	**4.79**
BNP PARIBAS NOMS PTY LTD <DRP>	**69,953,015**	**2.99**
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	**28,723,184**	**1.23**
AMP LIFE LIMITED	**24,949,973**	**1.07**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	**20,265,602**	**0.87**
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	**19,936,083**	**0.85**
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	**18,962,769**	**0.81**
IAG SHARE PLAN NOMINEE PTY LIMITED <IAG DAP UNALLOCATED ACCOUNT>	**13,718,507**	**0.59**
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	**8,321,797**	**0.36**
ARGO INVESTMENTS LIMITED	**6,981,075**	**0.30**
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/C>	**4,897,704**	**0.21**
MILTON CORPORATION LIMITED	**4,814,075**	**0.21**
NATIONAL NOMINEES LIMITED <DB A/C>	**4,489,973**	**0.19**
UBS NOMINEES PTY LTD	**3,391,746**	**0.14**
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	**3,350,092**	**0.14**
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <BKMINI A/C>	**3,278,170**	**0.14**
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	**3,244,796**	**0.14**
Total for top 20	**1,407,978,495**	**60.15**

RANGE OF ORDINARY SHAREHOLDERS AS AT 31 JULY 2014	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**455,108**	**239,738,279**	**10.24**
1,001-5,000	**278,520**	**476,027,570**	**20.33**
5,001-10,000	**11,213**	**76,128,003**	**3.25**
10,001-100,000	**3,731**	**75,813,027**	**3.24**
100,001 and over	**162**	**1,473,911,169**	**62.94**
Total	**748,734**	**2,341,618,048**	**100.00**
Shareholders with less than a marketable parcel of 80 shares as at 31 JULY 2014	**6,884**	**20,270**	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	Fully franked	13	$5.4195	2 April 2014
Ordinary	Final	Fully franked	26	*	8 October 2014

* The DRP issue price for the final dividend is scheduled to be announced on 3 October 2014.

SUBSTANTIAL SHARE HOLDINGS AS AT 31 JULY 2014

As at 31 July 2014 there were no substantial shareholders holding more than 5.00% of the Issued Capital.

IAGPC CONVERTIBLE PREFERENCE SHARES INFORMATION

IMPORTANT DATES*	2014
Record date for dividend	24 October 2014
Dividend paid	3 November 2014

* Please note dates are subject to change.

TWENTY LARGEST CONVERTIBLE PREFERENCE SHAREHOLDERS AS AT 31 JULY 2014	NUMBER OF SHARES	% OF ISSUED CAPITAL
J P MORGAN NOMINEES AUSTRALIA LIMITED	**638,197**	**16.91**
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	**340,070**	**9.01**
NATIONAL NOMINEES LIMITED	**146,182**	**3.87**
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	**135,417**	**3.59**
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	**81,688**	**2.16**
AUSTRALIAN MASTERS YIELD FUND NO 3 LIMITED	**79,750**	**2.11**
CITICORP NOMINEES PTY LIMITED <DPSL>	**66,898**	**1.77**
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	**41,339**	**1.10**
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	**36,518**	**0.97**
WENTHOR PTY LTD <THE JOHN THORSEN FAMILY A/C>	**33,000**	**0.87**
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	**30,000**	**0.79**
CITICORP NOMINEES PTY LIMITED	**26,928**	**0.71**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	**25,828**	**0.68**
SANDHURST TRUSTEES LTD <LMA A/C>	**20,463**	**0.54**
QUESTOR FINANCIAL SERVICES LIMITED <TPS PIP A/C>	**16,187**	**0.43**
THE WYATT BENEVOLENT INSTITUTION INC	**15,517**	**0.41**
EDSGEAR PTY LIMITED	**14,477**	**0.38**
UBS NOMINEES PTY LTD	**12,458**	**0.33**
JGW INVESTMENTS PTY LTD	**10,020**	**0.27**
ART GALLERY OF NSW FOUNDATION	**10,000**	**0.26**
Total for top 20	**1,780,937**	**47.16**

RANGE OF CONVERTIBLE PREFERENCE SHAREHOLDERS AS AT 31 JULY 2014	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**3,700**	**1,217,257**	**32.26**
1,001-5,000	**293**	**617,541**	**16.36**
5,001-10,000	**21**	**167,993**	**4.45**
10,001-100,000	**15**	**511,071**	**13.54**
100,001 and over	**4**	**1,259,866**	**33.39**
Total	**4,033**	**3,773,728**	**100.00**
Shareholders with less than a marketable parcel of 5 shares as at 31 JULY 2014	**1**	**1**	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
Preference	Interim	Fully franked	$2.2962	1 May 2014
Preference	Final	Fully franked	$2.3942	3 November 2014

CORPORATE DIRECTORY

SHARE REGISTRY

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All information about IAG's 2014 financial performance is available online at www.iag.com.au/reportingcentre/2014/index.html, or scan this QR code to go straight to IAG's website, for financial updates, investor reports, ASX announcements, key dates and a comprehensive shareholder centre.

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Insurance Australia Group

AUSTRALIA	NRMA Insurance, SGIO, SGIC, RACV [1], CGU, Swann Insurance, Lumley Insurance, WFI
NEW ZEALAND	State, AMI Insurance, NZI, Lumley Insurance
ASIA	Safety Insurance [2], NZI, AmAssurance [3], Kurnia Insurans [3], SBI General Insurance [4], 渤海保险 Bohai Insurance [5], AAA Assurance [6]

100% owned unless indicated

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.