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Presentation

MIKE WILKINS, MD AND CEO, INSURANCE AUSTRALIA GROUP LIMITED: Well good afternoon ladies and gentlemen and welcome and thank you for attending our briefing today to discuss Insurance Australia Group's results for the year ended June 30, 2014.

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I'm pleased today to be reporting another strong performance for IAG, which is in line with the update that we provided to the market on July 24. This result is further evidence of the rewards of the strategy that we've been consistently following, with its focus on our home markets in Australia and New Zealand and on establishing a longer term growth platform in Asia.

2014 has been an exciting year for us, laying the groundwork for the next stage of our growth and development. But first to the results for the year just completed.

The 2014 year has been a strong one for IAG. Our underlying insurance margin showed further improvement, fuelled by advances in each of our divisions in Australia and New Zealand. Meanwhile our Asian business has continued to develop to plan. This result places us in a strong position as we move to the next stage of the Group's development. Pivotal to this are the acquisition of the former Wesfarmers business, which we completed on June 30 of this year, and to the move to our new operating model in Australia.

In the 2014 financial year, all of our key income statement measures have improved. The Group's net profit after tax rose by nearly 60%, helped by the absence of our UK business, the sale of which was completed in April of last year. Excluding the UK, the bottom line improvement was 16%. We've also announced a greater than 8% increase in our full year dividend per share and we remain in a strong capital position which is well in excess of our targeted long term benchmarks.

Our gross written premium growth was 3%, reflecting a relative absence of input cost pressures that we've experienced in previous years. This has translated to limited need for premium rate increases. As you can see from this chart, our growth rate in 2014 is more typical of that normally applicable to the relatively mature markets of Australia and New Zealand in which we operate. Our top-line performance also included volume growth which was broadly in line with system in most business classes and segments.

The improvement in our underlying margin reflects the rewards of diligently sticking to our focus strategy. Key drivers of this improvement have been a continuing focus on customer needs and customer service, the improved underwriting disciplines that are now very firmly embedded right across our organisation, a significant improvement in underlying claim practices and costs and the realisation of cost efficiencies from a range of improvement programs.

In the meantime we've also increased our reinvestment in the business, with a number of projects directed at improved customer service, product design and people development, all ensuring we optimise the Group's long term competitive position.

Our reported margin for the 2014 financial year rose to 18.3%, boosted by influences similar to those experienced in 2013. These comprised prior period reserve releases above our long term expectations, a further narrowing of credit spreads and a favourable natural peril experience against our allowances. The overall insurance margin outcome is at the top end of the updated guidance range that we presented on July 24.

Turning now to the individual divisional performances. Australia Direct has continued to perform well. Relatively flat GWP was in line with the commentary that we provided at the time of our dedicated market briefing in April of this year. Australia Direct has incurred little in the way of input cost pressures and this has been reflected in premium rates. This reported GWP also reflects the end of the Victorian fire services levy collection and our decision to exit to the Queensland CTP market, which between them reduced GWP by over AUD80 million.

The business' underlying margin has improved across the year. There's been notable improvement in underlying claims performance with supply chain initiatives and lower than expected frequency, both contributory factors. Australia Direct's higher reported margin of 22.5% reflects both the improvement in underlying performance and higher reserve releases. Overall this is a strong result from Australia Direct.

CGU, our Australian Intermediated business, has demonstrated a sustained improvement in its underlying performance this year. The business has maintained its market position, with GWP growth of 2.8%, excluding Victorian FSL. Modest rate growth has been achieved in most segments in an increasingly competitive environment. The businessï¿½ underlying margin of 11.4% is slightly in excess of that recorded in 2013.

Further improvement in underlying claims performance was achieved, whilst benefits from the OneCGU operating model have continued to be realised in line with plan. CGU's reported margin was slightly lower this year, largely owing to a reduction in prior period reserve releases after the one-off case influenced outcome of 2013. This has been another solid performance from CGU.

Our New Zealand business has continued to perform strongly. Sound local currency GWP growth of nearly 4% was largely driven by rate increases on our home owners' portfolios, while reported GWP growth of over 17% included a favourable foreign exchange movement. The underlying performance of this business has again improved.

The completed AMI integration was one ingredient into this improvement, delivering total synergies of NZD35 million which is higher than our original expectations. New Zealand's reported margin of 11.5% is also an improvement on the prior year and was achieved despite net natural peril claim costs in New Zealand being well above our allowance.

I'm proud of the role that we continue to play in the recovery of the Canterbury region, following the major earthquakes in 2010 and 2011. At June 20 we'd paid over NZD3.3 billion worth of claims, with around 58% of claims by number now fully settled. With increased complexity being encountered in the re-build process, we've extended our expected completion date for the re-build to mid-2016, but we do expect to have all remaining properties in a construction phase by December 2015. We expect our New Zealand business to maintain this strong performance.

Importantly for the long term, the development of our Asian business continues to progress to plan. A reported divisional profit of AUD14 million is lower than the preceding year but it does include an adverse investment mark-to-market movement of AUD12 million. Our established businesses in Thailand and Malaysia represent over 75% of our investment in the region and they've continued to perform well.

GWP in Thailand contracted slightly following the conclusion of the prior year's government incentive for car buyers, whilst the Malaysian business benefitted from a full year's contribution from our Kurnia acquisition. The integration of Kurnia has resulted in synergies well in excess of our original target.

Asia represented over 7% of the Group's GWP on a proportional basis, with strong growth achieved in India and China, and Vietnam consolidated for the first time. Collectively these developing markets contributed marginally higher operating losses but this was in line with our expectation. Meanwhile we continue to assess market entry opportunities in Indonesia, but we remain patient to ensure that we secure the right partner. For Asia we remain very enthusiastic about the long term prospects and we're pleased with our progress to date.

So as I said earlier, this year's been another strong performance by the Group giving us confidence in our ability to build on the base that we've created. I now ask Nick to discuss our investment, reinsurance, and capital positions.

NICK HAWKINS, CFO, INSURANCE AUSTRALIA GROUP LIMITED: Thanks Mike and good afternoon everybody. Today I'll address the continued high quality of the Group's investment portfolio, and the strength of the Group's reinsurance and capital position. I'll also provide some detail on the recent performance of the Wesfarmers business that we've just acquired, as well as an outline of the expected financial impacts from its integration and our move to a new operating model within Australia.

We first look at the Group's investment portfolio, which now stands at over AUD15 billion. Our technical reserves exceed AUD10 billion with more than AUD1 billion increase since December due to the inclusion of the Wesfarmers' assets.

There was no change to the mix of assets backing our technical reserves, which remain entirely invested in fixed income and in cash. The mix within our shareholders' funds has changed since December 31 essentially reflecting the realisation of some high quality fixed income instruments to fund the Wesfarmers business. The growth asset weighting in shareholders' funds is now back up to 42% which is consistent with our long-term view of growth assets in our shareholder funds in the range of 40% to 50%.

The Group's investment performance has remained strong. As we predicted at the half, we are now experiencing a lower running yield than in the previous 2 to 3 years, largely due to the lower credit spreads that are available on the high quality assets that we're investing in. Our expectation is that this will be around 70 basis points above risk free over the medium term.

Our shareholder's funds performance reflects the strong showing by equity markets as well as our alternate asset classes, where the major of our exposure continues to be global convertible bonds.

Next just a brief word on our reserve releases. The 2014 outcome was in line with our revised guidance that we gave the market in January of reserve releases just under 3% of our net earned premium. It is still our expectation that these will reduce over time and that also allows for the inclusion of the Wesfarmers business.

For the purposes, though, of our 2015 guidance we have an expectation of reserve releases in the order of 2% of earned premium. This continues to reflect the low claims inflationary environment that we are experiencing in Australia and its effects on our reserving on our long tail classes. This does not change our longer term view however that reserve releases of around 1% of our net earned premium should be regarded as a reoccurring feature of our reported earnings which really takes account of the Group's prudent approach that we take to reserving.

As you're aware, reinsurance is a fundamental element of our overall approach to capital management. The Group's main catastrophe program runs on a calendar year basis and comprises of AUD5.6 billion of cover.

From July 1 we've also renewed a standalone program for the Wesfarmers business. This comprises a main catastrophe cover for losses up to AUD1.35 billion with one reinstatement, and a retention of AUD50 million. This means the Group's MER or effectively our exposure to a single event increases from AUD175 million up to that AUD225 million. Our current aim though is to roll the Wesfarmers program into the Group's main program on renewal of our main program at January 1.

Our natural perils allowance for the 2015 financial year is AUD700 million. This has been set after allowing for our overall business growth and mix, obviously the inclusion of the Wesfarmers business, and also importantly the way our reinsurance cover works with our natural perils allowance.

We have taken out a perils cover specific for the 2015 financial year which provides protection of AUD150 million in excess of our allowance of AUD700 million, effectively giving us the protection up to AUD850 million. As you can see the Group's reinsurance protection is strong.

The increase in our reported reinsurance expense this year is entirely explained by the inclusion of the CTP quota share agreement which added nearly AUD270 million to the expense in the last financial year. If we strip this element out our reinsurance expense as a proportion of premium has gone down slightly. This reflects the softer reinsurance market conditions that we are experiencing in this part of the world and we expect this favourable trend to continue in the 2015 financial year.

In relation to capital the Group's overall position remains strong, with both of our key regulatory capital measures sitting above our targeted long-term benchmarks. After allowance for the final dividend we are within those benchmark ranges.

Since year-end we have entered into an adverse development cover -- or ADC, we call it -- in respect of our CTP portfolios. This is the second leg to the quota share agreement and has been transacted with the same counter-party.

The ADC provides protection for 30% of any reserve deterioration above the central estimate in respect of losses incurred up to June 30, 2013. Improved capital efficiency is the motivation for us taking out both the ADC and the quota share agreements with a combined expected reduction in our PCA of AUD150 million.

The quota share has already delivered around AUD60 million of this benefit in the 2014 financial year, and the ADC will crystallise the balance of that AUD90 million in 2015. As these initiatives demonstrate, we're always looking at ways to improve the Group's capital efficiency.

On dividend, the Board is determined to pay an increased final dividend of AUD0.26 per share fully franked. This brings the full year dividend to AUD0.39 per share which is an 8% increase on the previous year. It also represents nearly 70% of our full year cash earnings which is at the top end of our pay out policy of 50% to 70% of our cash earnings.

I thought it would also be useful to provide you a snapshot of the Wesfarmers underwriting business performance for the 2014 year. As you're already aware the P&L is obviously not included in the Group's results for this current financial year, but we have consolidated the balance sheet as at June 30.

As you can see the Wesfarmersï¿½ business premium pool was just under AUD1.8 billion for the 2014 financial year. It also produced an insurance result of just under 10% insurance margin on either a reported or more importantly from our point of view, in an underlying basis. Importantly, the business has performed in line with our expectations.

Finally I just wanted to summarise the expected financial impacts from both the Wesfarmers integration and the move to a new operating model within our Australian business. As we indicated in July, for ease of future monitoring and reporting we will treat them as one project. Overall we expect to recognise one-off costs of AUD220 million pre-tax, of which we've recognised AUD50 million of that in the 2014 financial year.

We expect most if not all of the balance of these costs to be recognised in 2015. These are being identified in the net corporate expenses line and will be added back for cash earnings and dividend calculation purposes.

We are also anticipating overall pre-tax synergies and benefits of AUD230 million per annum, expecting to hit that run rate by the end of the 2016 financial year. A synergy and benefit run rate of approximately AUD80 million is expected by the end of the 2015 financial year.

So before handing back to Mike, I'd just like to recap. Our investment portfolio remains conservatively positioned and continues to generate strong returns for the Group, our reinsurance protection is strong, we retain a very strong capital position, and the recent performance of the Wesfarmers business has been in line with our expectations. I now return you to Mike to address outlook.

MIKE WILKINS: Thanks Nick, and finally to our guidance for the 2015 financial year. As usual this concentrates on two key measures. Firstly GWP growth which we expect to be in the range of 17% to 20% with a vast majority of this sourced from the addition of the former Wesfarmers business.

Our GWP growth expectation embraces three things. Firstly, underlying volume growth in our existing businesses broadly in line with system growth. Secondly, modest rate increases reflecting lack of input cost pressures in an increasingly competitive environment, and some modest assumed attrition in respect of the Wesfarmers business.

We also expect to deliver an insurance margin in the range of 13.5% to 15.5%. As always this outcome is subject to the usual caveats and it includes incorporation of the former Wesfarmers business as well as reserve releases of around 2% of net earned premium.

Ladies and gentlemen, as I said at the outset this has been a significant year for IAG both financial and strategically. We've delivered a strong performance which has reflected the benefits of consistently pursuing our strategy and maintaining our disciplines. We've also forged the next steps in the long-term development of our organisation.

We look to the future with considerable confidence, and I want to publicly recognise the sustained efforts of all of our people in getting us to this point. Nick and I are now very happy to take any questions that you might have.

Questions and Answers

MIKE WILKINS: I think what we'll do is we might start here in Sydney and then we'll move to those people who are joining us on the phones. I guess if you can wait for a microphone. Nigel looks like he's got the first question.

NIGEL PITTAWAY, ANALYST, CITI INVESTMENT: Thanks, Mike, Nick. Nigel Pittaway here from Citi. Question on reserve releases, there's quite a significant skew towards reserve releases being much greater from CTP in the first half than they were in the second half. Can you explain why that's the case, because that wasn't the same last year?

NICK HAWKINS: Yeah, I mean in theory there should be no consistency to half on half on half. Every time we have a reporting period we aim to take a view around those reserves and our history has been that our assumptions at the beginning of that reporting period have ended up being more conservative than we've ended up being, so therefore we have that reserve release as you're aware. I don't think there's anything in that question around and it certainly isn't a trend you should expect first half versus second half.

We're still not seeing any signs of super-imposed inflation across our book, but on the other hand I think it's not realistic to assume that some of the reserve releases we've had in the past are going to continue forever. That's why we're guiding down to that 2% and 1% long-term but we have enjoyed just under 3% in the last financial year.

NIGEL PITTAWAY: Then just on the 2% guidance, I think last time you guided that through to [1816]. This time it's only appearing for FY15 is there any ï¿½

NICK HAWKINS: Those of you -- I think I said in February that calendar 2014 and 2015 we had expectations of around 2%. I don't think we'll say anything different today other than we're just talking about guidance for June 2015. I don't think our view has changed in the three or four months since then.

NIGEL PITTAWAY: So there's not in any of this a sort of nervousness of the reserve release that you've previously identified might not come through.

NICK HAWKINS: No there's none of that Nigel. I'm really not aware of anything new between February and today that would change our view around that. I mean we just will say again that we do not expect that reserve releases of 3%, 4% or 5% are going to continue forever and we're talking 2% for 2015 and we're guiding down to that long term rate our view of around 1% so the same statement that we've made a couple of times before.

NIGEL PITTAWAY: Okay and then maybe just a question on reinsurance expense I mean obviously there's no NEP guidance given. You're obviously -- you've got your Wesfarmers coming in and you've got your main renewal January 1. Can you give us any clue as to what we should be looking at in terms of that line?

NICK HAWKINS: We should be -- we talked before around how we used to pay roughly AUD0.06 in the dollar for reinsurance which is a crude measure for gross written premium. That certainly has stepped up to AUD0.8 or AUD0.85 in the last little bit. I would expect and assuming that if some of the recent market activity continues for that number to trend down a little bit over this reporting period. We've identified around about 8% of our gross written premium being a rough measure around our reinsurance costs roughly.

NIGEL PITTAWAY: Okay thank you.

NICK HAWKINS: Sorry Nigel ex the CTP as part of that. So you add back the AUD270 million of additional CTP as part of the quota share.

MIKE WILKINS: I think Ross has got a question.

ROSS CURRAN, ANALYST, COMMONWEALTH BANK OF AUSTRALIA: Thanks gents it's Ross Curran from CBA just two quick questions. The first I was wondering if you might be able to elaborate on your comments on attrition with the Wesfarmers deal and then secondly I was wondering if you could make any comments on any change in competition from the banks in home insurance?

MIKE WILKINS: On the attrition as we said at the time that we acquired Wesfarmers we had made an expectation that we would see some business loss because it just happens. I guess industry standards tend to be in the range of 5% to 10% is the sort of expectation and you could assume that we would fall somewhere in there although I've got to say the experience that we've had with both the AMI acquisition in New Zealand and with Kurnia has been towards the lower end of those expectations but it's somewhere in there Ross.

In terms of bank competition, yes we have seen banks being interested in home loans and I guess that's all about looking for ancillary services. We have seen some very competitive offers coming for home loans including in some markets the home insurance actually being thrown in for the first year if you actually take a mortgage. Daniel.

DANIEL TOOHEY, ANALYST, MORGAN STANLEY: Thanks, Daniel Toohey from Morgan Stanley. Just a question on the growth trajectory and outlook for 2015. So if I take the FY14 numbers and just add on Wesfarmers I think I get about 18% and you're guiding for 17% to 20%. Yet within that I guess there's an attritional somewhere between 5% and 10% -- call it 7.5%. What then are you assuming in terms of just an underlying growth on a roll through?

MIKE WILKINS: As I called out we said we expected that we'd see underlying volume growth roughly in line with system growth and that's not significant in the current market environment. Particularly I guess because we're seeing not much need for rate increase because inflation coming through the claims line is relatively negligible so it's a relatively small growth.

DANIEL TOOHEY: And on the adverse development cover on CTP is that purely just capital driven? Are there any concerns around anything you're seeing?

NICK HAWKINS: No and it kind of matches up with the quota share. So if you think the quota share is a go-forward so effectively from when we entered into it. The reason we've done the ADC at June 2013 is it matches up with the quota share. So effectively now from July 1 say 2013, 30% of our CTP book has now been quota shared away.

What we've done is effectively put an ADC behind that which is in on the back book which means our entire book now is we've taken 30% of the risk out. It goes back to the additional rationale that we talked about in December really being CTP was 8% or 9% or 10% of the premium for all the time and was about 25% of the capital over the **Company**. We thought that was out of kilter so we've effectively rebalanced that.

Now of course from a customerï¿½s point of view and the cross sell that happens between CTP and motor, there's no change. This is all happening behind the scenes in the **Company** and the customer won't have any impact or won't know about these **transactions**.

DANIEL TOOHEY: Just on the reserve releases can you comment on what the major drivers are of those reserve releases?

NICK HAWKINS: Yes there's no -- it's sort of the similar theme -- it's the long tail classes, it's around our assumptions around superimposed inflation and effectively as I mentioned to Nigel we're really not experiencing us in our book. I think that's common for the market too we're just not seeing any signs of it.

DANIEL TOOHEY: Okay so mostly inflation nothing with respect to efforts to curtail frequency or anything you're doing in terms of reducing size and period and time back to work and any of that?

NICK HAWKINS: No doubt there's a little bit of that but I think the main driver will be the fact that we just -- the absence of superimposed inflation in this market.

DANIEL TOOHEY: Alright thank you.

MIKE WILKINS: Kieren?

KIEREN CHIDGEY, ANALYST, DEUTSCHE BANK: Kieren Chidgey, Deutsche Bank. Just two questions if I could -- one kind of touching on the growth questions which have been asked but more specifically around the Australia Direct business. The underlying margin there it looks like in the second half was north of 17% which is quite a step above the 14% to 15% I think you've historically talked about. The growth there quite soft notwithstanding the impact of the roll off the levies and some of the reduction in CTP we've seen that book go backwards in the second half.

So it does look like you've gone far harder on margin than growth than what some of your competitors perhaps have. There's -- given they're talking about trading off some of the margin they've enjoyed even though their benefits aren't as significant as what we're seeing reported in your numbers do you feel you're at the point where you're going to have to revisit your pricing and give a bit back to reignite that growth?

MIKE WILKINS: We as I said earlier we think that in terms of volume we're growing at about system particularly in motor and in fact we grew our motor volume about 1.1% -- 1.2% and that was spread across the year. We did see some softness in terms of the home book where our retention rates were pretty much as we've always seen but I've got to say new business opportunities were harder to come by.

I think the improvement in the margin can really be put down to a couple of things and I tried to call them out during the presentation. Just the continuation of some of the supply chain work that we've actually been doing now starting to come through to the bottom line as well as just a concentration on looking at how we managed those claims more generally. So nothing other than that but it is a strong margin and it puts us in a great position. Although we have called out for a while that we prefer margin to necessarily looking to shoot the lights out in terms of top line but we do expect that we'll grow at least in line with system.

KIEREN CHIDGEY: So what should we be thinking about for the margin for that division going forward?

MIKE WILKINS: We've called for the long term that we expect to deliver an underlying margin of about 15% and I think that's about right. As I said we had some benefits particularly from some of the supply chain issues that came through as well as some of the other work that we've just been doing in the business but ultimately I think long term look for a mid teens margin.

KIEREN CHIDGEY: Okay and just given the margins you're signalling will come down over time I guess as Asia becomes more important and your commentary suggested you're very happy with the progress there. But on my numbers to hit that 15% ROE target pre-regional development costs it looks like you've got to do north of 20% CAGR per annum over the next three years. Is that a realistic outcome?

MIKE WILKINS: We think the markets that we're seeing in Asia just exhibit much stronger growth prospects. We had called out that we expect to undertake an investment in Indonesia and I know we've been talking about that for a while but we still do anticipate that we're going to get there.

I think the result for the current year was influenced by a couple of the things I talked about -- our GWP was a little lower in Thailand and that's really to do with just the entire market coming back particularly after the government sponsored first time car owner scheme came off and also just some of the political issues that we've had there. That's now starting to reverse.

Also a significant component of it was the mark-to-market effect that we had on our investments and that mainly came through the associates line in terms of Malaysia. Generally speaking we're very happy with the trajectory and particularly happy with what's going on in India and **China**.

KIEREN CHIDGEY: Okay but with the change in the tariffing regime in Malaysia changing too over that three year timeframe are you comfortable?

MIKE WILKINS: Yes we are. I think part of the tariffing change actually has been one of the issues that's driven consolidation in that Malaysian market and the good news for us is that we've got our consolidation done and Kurnia coming in I think gives us a very strong position to be able to deal with that. Now it's happening in 2016 sometime because at the moment the Malaysian government hasn't said whether it's at the start, at the middle or at the end of 2016 but we are ready for it.

KIEREN CHIDGEY: Thanks.

MIKE WILKINS: There are no other questions here in the room. We might just see whether we've got some questions on the phone and then we can come back.

OPERATOR: Thank you. Your next question comes from James Coghill from UBS. Please go ahead.

JAMES COGHILL, ANALYST, UBS: Good morning Mike. Most of them have been asked already but I'll just ask one on Wesfarmers. You say that the underlying and reported broadly in line at around 9% -- they have previously quantified that earthquake strengthening as AUD45 **million** and you're saying now that the earthquake strengthening and natural perils performance broadly offset each other.

Is that right? Are we thinking about that in the right way? It just looks like a very large natural perils benefit that's come through that business over the year, relative to the AUD45 **million** in earthquake strengthening?

NICK HAWKINS: Yes I mean -- James it's Nick. It's roughly that, so the earthquake strengthening. They also had a couple of one-off reserve releases or recoveries actually that netted it off. So our view -- and this is why we made the statement -- our view that underlying, the way IAG thinks of underlying, is roughly the same as that headline number but there are some ups and downs in that which bring you back to the same number.

JAMES COGHILL: Okay thanks. I have another question on growth. I don't think we'll get much more out of you on that but when you look at that second half, both yourselves and your major competitors personal lines was down 1% in the businesses. I guess the key difference though is that your major competitor has come out with much stronger comments about reacting to that trying to capitalise on disruption and IAG as you go through the integration. Whereas you just don't get the impression that tactically there's a lot going on within IAG to counter both that competitor threat and the threat from challenges.

So I was just hoping Mike if you could just give us a little bit more colour about what exactly is going on in motor? I mean volumes as you say are under pressure there.

MIKE WILKINS: Well James as I said earlier particularly in our Direct business our motor volumes grew by about 1.1% or 1.2% over the course of the year and that wasn't skewed one half to the other which we think is about in line with what the net growth in the car **park** was over the year, so we're talking about volumes. There wasn't much need for price increase in that area because of the lack of inflation in terms of claims cost. So you're not going to see a great uplift coming from that.

I did just call out, in answer to Kieren's question, what we saw in the home book which was new business opportunities were tougher to come by. But what we are doing is we're holding our retention rates at about the same level. It's probably fair to say, if you look at the premium pool for home, we were flat at best in terms of home during 2014.

JAMES COGHILL: Right, okay, thank you.

OPERATOR: Thank you. Your next question comes from Ryan Fisher from Goldman Sachs. Please go ahead.

RYAN FISHER, ANALYST, GOLDMAN SACHS: Thanks, guys. I've got two questions.

The first question relates to the dividend payout ratio. Your ROE's risen quite considerably in recent times and it sounds like the outlook's very comfortable, so I was just wondering whether we should be thinking towards the top end of your payout ratio ongoing because it is a fairly prudent range? Can you maybe comment on what sort of things in Asia maybe need a little bit of a cash buffer?

NICK HAWKINS: Ryan, it's Nick. I'll have a go at that if you want. A couple of things.

We came up with our dividend policy in the first place, as you're aware, of between 50% to 70% of cash earnings, really ensuring obviously a return to shareholders but also to continue to invest back into the **Company** both for organic and inorganic growth.

Our view for the June 2014 financial year and the cash earnings that we've generated is that we've gone to that 70%, which is really driven by one, the quantum of the earnings and two, where we're currently deploying that additional capital.

As you know also, **M**&A activity doesn't generally line up all in a row in a nice, neat sequence. It generally is lumpy. So the range that we end up paying out will be dependent upon what's happening organically in our businesses and what's happening with **M**&A activity?

Obviously with the current trajectory and the way we talked around guidance, if there is no **M**&A activity, then that would obviously **lead** us probably towards the higher end of that range. But different circumstances will direct us to come to a different outcome.

I think you should be thinking that we are serious around 50% to 70%, that we're not always going to go to the top, but that it just where we've got to for this period based upon what's on the slate.

MIKE WILKINS: Yes, Ryan, itï¿½s Mike. I think just adding to that, we don't have a lot on the agenda in terms of **M**&A -- two things that we've called out. One is an investment in Indonesia. We're not backing away from the -- we think that'd be of the order of about AUD100 **million**.

The second one is we would like to dial up in India. The Lower House in India, Lower House of Parliament, has approved the dial up. However, it's not stuck in the Upper House, which sounds familiar to Australia, I guess.

We would like to dial up from 26% to 49%, but we don't quite know when or if that legislation is going to be passed. They're about the only two things that are on our immediate agenda.

RYAN FISHER: Thanks, Mike. Just for reference, that would be materially larger than the Indonesia sites, wouldn't it, if it came through?

NICK HAWKINS: Well, we think that it would be an investment roughly the same order of what we put into India to get the first 26%. That was AUD126 **million** so not appreciably larger, but we're not talking massive investments here.

The good news if you will, for us, is I'd prefer to make that dial up now while the business is still throwing off very small operating losses rather than in a couple of years when it'll be profitable.

RYAN FISHER: Great. Thanks, Nick. Thanks, Mike.

My other question quickly is on **commercial** insurance and just interested in what you're seeing in premium rates for CGU and Wesfarmers.

MIKE WILKINS: I guess it's a tale of different parts. I called out during the presentation that we're seeing an increasingly competitive environment. That's fuelled by just the weight of capital that's around at the moment. That's mainly skewed at the moment, though, towards the top end **commercial** market, which is not a big deal for us, but we do expect it will trickle down.

Certainly the rate increases that we saw coming out of our SME book were only of the order of 2% or 3% whereas a year ago we were probably looking at 5%. So it's starting to have its effect. The June 30, I think, particularly in that top end **commercial** space, was pretty competitive.

RYAN FISHER: Great, thank you. That's all from me.

OPERATOR: Thank you. Your next question comes from Siddharth Parameswaran from JPMorgan. Please go ahead.

SIDDHARTH PARAMESWARAN, ANALYST, JP MORGAN: Hi, gentlemen, a couple of questions if I can. One is just on [cold] insurance. It seems to have taken it over.

What did you find in terms of underlying profitability of the book and what actions have you taken on premium rates? We are hearing that there have been some substantial price rises pushed through.

MIKE WILKINS: I don't think that that's correct, Sid, in terms of substantial price rises that we've initiated. I suspect that they were already in train.

The book is growing reasonably rapidly but compared to -- growing off a very small base. In fact, it's still a small business in overall terms.

We're happy enough with what we're seeing. It is appealing to a slightly different demographic to where the mainstream IAG brands go, so we think it's actually opened up a new market opportunity for us. We're happy with what we're seeing.

Bear in mind we've had control of this business for less than six weeks. We've not initiated any price increases at this stage.

SIDDHARTH PARAMESWARAN: Okay.

If I can just ask a question on underlying margins in **commercial**, where you think they'll end up? You made a comment about personal lines, your Direct business, 15%. Where do you think **commercial** might end up through the cycle?

MIKE WILKINS: Yes, by definition, I think **commercial** insurance is more competitive just because of the market just because of the market structure that we've got. We've said for some time we think a margin in the range of 11% to 12% is acceptable. It delivers the sort of returns that we want to deliver out of that **commercial** business.

We're right in the middle of that right now, so that's what we'll be targeting.

SIDDHARTH PARAMESWARAN: Yes, and one last question from me. Just on the running yield, could you give us your thoughts on what you're likely to get for FY15 in your ï¿½ whatï¿½s underpinning your guidance and also how that compares with FY14?

NICK HAWKINS: Yes, I mean -- Sid, it's Nick. The way you should think about it is the book is roughly 3 to 4 years. It's slightly shorter with Wesfarmers coming in but not materially.

We aim to effectively make, across the entire say tech reserve, so about AUD10 **billion** risk free, plus I talked today around about 70 basis points over. When we used to talk about 100, obviously some of the mark-to-mark positives we've had on the credit spreads, the go forwardï¿½s a bit tougher.

We think that 100 is now more in the range of that 70 basis points over risk free. So everything else being equal, that's what you should be thinking across that AUD10 **billion**.

SIDDHARTH PARAMESWARAN: Okay, great. Thanks.

OPERATOR: There are no further questions from the phone at this time.

MIKE WILKINS: Thank you. Any further questions, Sid? Kieren.

KIEREN CHIDGEY: Thanks. Nick, just a quick question on the tax rate.

NICK HAWKINS: Yes.

KIEREN CHIDGEY: Can you give us an indication -- is that 26% effective tax rate likely to remain similar going forward?

NICK HAWKINS: Yes, there's a couple of things in the current year that have driven us down to 26%. I think the way you should think about the go forward is obviously a lot of the earnings are in Australia at 30%, but a more material portion of the earnings profile of the Group is now in New Zealand at 28%. So we're naturally coming down anyway, just the blend of earnings.

In addition, we've got franking credits coming in on the say AUD1 billion Aussie equity portfolio, so we get the benefit of that and the average tax rate. I think the net of all that -- I mean, there's some noise in the average tax rates driven by jurisdictions of captives and things like that.

Probably just higher than 26% but not at 30%, so somewhere -- 27%, 28% -- in a normal year is where I would be suggesting the average tax rate should be, everything else being equal.

KIEREN CHIDGEY: Thanks.

MIKE WILKINS: Nigel?

NIGEL PITTAWAY: Actually just following up on that tax rate, I mean, it's probably noise, but it was 27.9% first half, 23.7% second half.

NICK HAWKINS: Yes.

NIGEL PITTAWAY: Is there anything to say about that? There's just more franking credits second half.

NICK HAWKINS: Yes, there's a bit of noise. There's a bit of noise still in the way our recoveries work around the Canterbury earthquakes through the different tax between our Singapore -- we have a captive base in Singapore and where the losses actually incurred in New Zealand.

So if you strip that out, in our view -- as I responded before -- somewhere late twenties is what I would be modelling our Company going forward as an average tax rate.

NIGEL PITTAWAY: Thanks.

MIKE WILKINS: No other questions? Well, can I thank everyone for coming along? We appreciate your time today.

As I said, this has been a really significant year for IAG, not just financially -- and we're really proud of the result that we've produced -- but also strategically, because I think it's taken us to the platform for the next stage of our growth and development.

We look forward to our future with confidence. We look forward to coming and reporting back to you in 6 months on how we've progressed, particularly with the integration of Wesfarmers and our move to the new operating model but also just with the continuation of the business development that we've seen and that we've been working on for now 5 or 6 years. What we've seen today is the culmination of that and us laying the platform for the next step.

So thanks again for everyone coming along. I appreciate your time and wish you a good rest of the day.

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