INSURANCE AUSTRALIA GROUP LIMITED
PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

APPENDIX 4E (ASX Listing rule 4.3A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	2015 $m	2014 $m
Revenue from ordinary activities	Up	18.4 %	**15,008**	12,679
Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent	Down	41.0 %	**728**	1,233
Net profit/(loss) attributable to IAG shareholders	Down	41.0 %	**728**	1,233

DIVIDENDS - ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Final dividend	16.0 cents	16.0 cents
Interim dividend	13.0 cents	13.0 cents

FINAL DIVIDEND DATE	
Record date	9 September 2015
Payment date	7 October 2015

The Company's Dividend Reinvestment Plan (DRP) will operate by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 10 September 2015. The DRP Issue Price will be based on a volume weighted average price for a 10 day trading window from 14 September 2015 to 25 September 2015 inclusive.

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

Additional Appendix 4E disclosure requirements can be found in the Annual Report of Insurance Australia Group Limited for the year ended 30 June 2015 (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 2015

Insurance Australia Group
Annual Report 2015

THE NUMBERS

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923

CONTENTS

KEY DATES

2015 financial year end	**30 June 2015**
Full year results and dividend announcement	**21 August 2015**
Notice of meeting mailed to shareholders	**7 September 2015**
Final dividend for ordinary shares	
Record date	**9 September 2015**
Payment date	**7 October 2015**
Annual general meeting	**21 October 2015**
Half year end	**31 December 2015**
Half year results and dividend announcement	**18 February 2016***
Interim dividend for ordinary shares	
Record date	**2 March 2016***
Payment date	**30 March 2016***
2016 financial year end	**30 June 2016**
Full year results and dividend announcement	**19 August 2016***

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

2015 Annual General Meeting

IAG's 2015 annual general meeting will be held on Wednesday, 21 October 2015, at the City Recital Hall, Angel Place Sydney, 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 on line at www.iag.com.au, from Monday, 7 September 2015.

About this report

The 2015 annual report of Insurance Australia Group Limited (IAG, or the Group) includes IAG's full statutory accounts, along with the Directors' and remuneration reports for the financial year 2015. This year's corporate governance report is available in the About Us area of our website (www.iag.com.au).

This report should be read with the 2015 annual review, which provides a summary of IAG's operating performance, including the Chairman's, CEO's and CFO's reviews. If you do not receive a printed copy of the annual review, you can access an interactive version online from the home page of our website at www.iag.com.au.

This year's annual review includes information about the Group's shared value strategy and performance. Detailed information about IAG's non-financial performance is available from www.iag.com.au.

If you would like to have a copy of the annual report or annual review mailed to you, contact IAG's Share Registry using the contact details on page 104.

All figures are in Australian dollars unless otherwise stated.

FIVE YEAR FINANCIAL SUMMARY

	2015	2014	2013	2012[a]	2011[a]
	$m	$m	$m	$m	$m
Gross written premium	**11,440**	9,779	9,498	8,495	8,050
Premium revenue	**11,525**	9,721	9,135	8,046	7,858
Outwards reinsurance premium expense	**(1,196)**	(1,077)	(817)	(700)	(620)
Net premium revenue	**10,329**	8,644	8,318	7,346	7,238
Net claims expense	**(6,941)**	(5,201)	(4,982)	(5,421)	(5,089)
Underwriting expenses	**(2,847)**	(2,303)	(2,178)	(1,994)	(1,978)
Underwriting profit/(loss)	**541**	1,140	1,158	(69)	171
Net investment income on assets backing insurance liabilities	**562**	439	270	914	489
Insurance profit/(loss)	**1,103**	1,579	1,428	845	660
Net investment income from shareholders' funds	**223**	396	347	89	213
Other income	**187**	199	175	164	264
Share of net profit/(loss) of associates[b]	**6**	(8)	(29)	(13)	(8)
Finance costs	**(107)**	(98)	(95)	(97)	(86)
Corporate and administration expenses[c]	**(383)**	(255)	(208)	(205)	(259)
Amortisation expense and impairment charges of acquired intangible assets and goodwill[d]	**(80)**	(11)	(25)	(20)	(170)
Profit/(loss) before income tax	**949**	1,802	1,593	763	614
Income tax expense	**(119)**	(472)	(424)	(177)	(276)
Profit/(loss) after tax from continuing operations	**830**	1,330	1,169	586	338
Profit/(loss) after tax from discontinued operation	**-**	-	(287)	(321)	-
Net profit attributable to non-controlling interests	**(102)**	(97)	(106)	(58)	(88)
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited	**728**	1,233	776	207	250
Ordinary shareholders' equity ($ million)	**6,817**	6,568	4,786	4,343	4,417
Total assets ($ million)[e]	**31,402**	29,748	24,859	25,132	23,029
KEY RATIOS					
Gross written premium growth	**17.0 %**	3.0 %	11.8 %	n/a	3.4 %
Loss ratio[f]	**67.2 %**	60.2 %	59.9 %	73.8 %	70.3 %
Expense ratio[g]	**27.6 %**	26.7 %	26.2 %	27.1 %	27.3 %
Combined ratio[h]	**94.8 %**	86.9 %	86.1 %	100.9 %	97.6 %
Insurance margin[i]	**10.7 %**	18.3 %	17.2 %	11.5 %	9.1 %
SHARE INFORMATION					
Dividends per ordinary share - fully franked (cents)	**29.00**	39.00	36.00	17.00	16.00
Basic earnings per ordinary share (cents)	**31.22**	56.09	37.57	10.01	12.08
Diluted earnings per ordinary share (cents)	**30.45**	53.62	36.44	9.96	12.01
Ordinary share price at 30 June ($) (ASX: IAG)	**5.58**	5.84	5.44	3.48	3.40
Convertible preference share price at 30 June ($) (ASX: IAGPC)	**101.60**	106.44	101.88	98.10	-
Reset exchangeable securities price at 30 June ($) (ASX: IANG)	**103.10**	107.00	102.80	99.30	103.00
Issued ordinary shares (million)	**2,431**	2,341	2,079	2,079	2,079
Issued convertible preference shares (million)	**4**	4	4	4	-
Market capitalisation (ordinary shares) at 30 June ($ million)	**13,565**	13,671	11,310	7,235	7,069
Net tangible asset backing per ordinary share ($)[e]	**1.34**	1.27	1.38	1.20	1.23

(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 is not re-presented.
(b) Share of net profit/(loss) of associates includes regional support and development costs. Refer to note 26 within the Financial Statements for further details.
(c) Includes a $60 million impairment of the investment in Bohai Insurance for 2015.
(d) This included impairment charges for acquired identifiable intangible assets and goodwill of $150 million for 2011.
(e) The financial information for 2014 has been restated to reflect the fair value adjustments to the net assets acquired in respect of the former Wesfarmers business in 2014.
(f) The loss ratio refers to the net claims expense as a percentage of net premium revenue.
(g) The expense ratio refers to underwriting expenses as a percentage of net premium revenue.
(h) The combined ratio refers to the sum of the loss ratio and expense ratio.
(i) Insurance margin is a ratio of insurance profit over net premium revenue.

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 2015 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 62 - 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 Chair of IAG's Nomination Committee and a member of the People and Remuneration Committee. He is also the Chairman of Insurance Manufacturers of Australia Pty Limited.

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.

Brian was appointed a member of the Order of Australia in 2004 for his services to business and the community and in 2001 he was named Leading CEO for the Advancement of Women by the Equal Opportunity for Women in the Workplace 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, FCA, FAICD, age 58 - 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. He is also a Director of Maple-Brown Abbott 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

ELIZABETH (EB) BRYAN AM

BA (Econ), MA (Econ), age 68 - Deputy Chairman and Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Elizabeth Bryan was appointed as a Director of IAG in December 2014, and as Deputy Chairman in June 2015. She is Chair of IAG's People and Remuneration Committee and a member of the Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Elizabeth is Chairman of Caltex Australia Limited, Chairman of Virgin Australia Holdings Limited, a Director of Westpac Banking Corporation, a member of the Takeovers Panel, a member of the ASIC Director Advisory Panel and President of YWCA NSW.

She was previously the Chairman of UniSuper Limited, where she served as a Director from January 2002 to June 2011.

Elizabeth has extensive experience in the financial services industry and on the boards of companies and statutory organisations. Her executive career has included senior roles with a variety of financial institutions, including eight years as the Chief Executive of Deutsche Asset Management and its predecessor organisation, NSW State Superannuation Investment and Management Corporation.

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

- Virgin Australia Holdings Limited, since 2015;
- Westpac Banking Corporation, since 2006; and
- Caltex Australia Limited, since 2002.

YASMIN (YA) ALLEN

BCom, FAICD, age 51 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Yasmin Allen was appointed as a Director of IAG in November 2004. She is a member of IAG's People and Remuneration Committee, the Audit Committee and Risk Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Yasmin has extensive experience as a company director and as an executive in the investment banking industry. She is a Director of Cochlear Limited and Chairman of its Audit Committee. She is a Director of Santos Limited and a member of the Santos Audit Committee and its Environment, Health, Safety and Sustainability Committee. Yasmin is a Director of ASX Limited, a member of its Clearing and Settlement Boards and a member of the ASX Audit Committee. She is also a National Director of the Australian Institute of Company Directors, a Director of the George Institute for Global Health and of the National Portrait Gallery. Previous Non-Executive Director roles include Chairman of Macquarie Global Infrastructure Funds and a Director 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:

- ASX Limited, since 9 February 2015;
- Santos Limited, since 22 October 2014; and
- Cochlear Limited, since 2 August 2010.

ALISON (AC) DEANS

BA, MBA, GAICD, age 47 - 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.

She was appointed as an Independent Non-Executive Director of Westpac Banking Corporation in April 2014, Kikki-K in October 2014 and of Cochlear Limited in January 2015. 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; and
- Cochlear Limited, since 1 January 2015.

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 67 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Hugh was appointed as a Director of IAG in September 2007 and Chairman of IAG New Zealand Limited in September 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 56 - 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 GIC Pte Ltd, Hong Leong Finance and Raffles Medical Group. He is an adjunct professor at the Lee Kuan School of Public Policy, National University of Singapore and the Nanyang Centre for Public Administration, Nanyang Technological University, Singapore.

Raymond is a former Cabinet minister in the Singapore Government from 2001 to 2011.

Prior to that, he 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).

TOM (TW) POCKETT

CA, BCom, age 57 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Tom was appointed as a Director of IAG, effective 1 January 2015. He is a member of IAG's Audit Committee and Risk Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Tom is a Non-Executive Director of Stockland Corporation Limited, a Director of Sunnyfield Independence Association and of O'Connell St Associates. He previously spent over 11 years as Chief Financial Officer and over seven years as Finance Director with Woolworths Limited, and retired from these roles in February 2014 and July 2014 respectively. He remains a Director of ALH Group Pty Ltd, Hydrox Holdings Pty Ltd and The Quantium Group Holdings Pty Limited. Tom has also held senior finance roles at the Commonwealth Bank, Lend Lease Corporation and Deloitte.

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

- Stockland Corporation Limited, since 1 September 2014; and
- Woolworths Limited (2006-2014).

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 71 - Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Philip was appointed as a Director of IAG in July 2008. He is Chair of IAG's Risk Committee, Chair of the Audit Committee, and a member of the 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 has also been 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 Boards of Swiss Re in 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 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).

DIRECTORS WHO CEASED DURING THE FINANCIAL YEAR

- Peter Bush was a Director from 7 December 2010 to 1 January 2015.
- Dr Nora Scheinkestel was a Director from 1 July 2013 to 16 September 2014.

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 below:

DIRECTOR	BOARD OF DIRECTORS				PEOPLE AND REMUNERATION COMMITTEE		AUDIT COMMITTEE		RISK COMMITTEE		BOARD SUB COMMITTEE		NOMINATION COMMITTEE[(a)]	
	Scheduled		Unscheduled											
Total number of meetings held	9		5		4		4		4		4		2	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Brian Schwartz	**9**	**9**	**5**	**4**	**4**	**4**	-	-	-	-	**3**	**3**	**2**	**2**
Elizabeth Bryan[(b)]	**3**	**3**	**4**	**4**	**1**	**1**	-	-	-	-	**1**	**1**	-	-
Yasmin Allen[(c)]	**9**	**9**	**5**	**3**	**4**	**4**	**4**	**4**	**4**	**4**	**1**	**1**	**2**	**2**
Peter Bush[(d)]	**6**	**6**	**2**	**1**	**2**	**2**	-	-	-	-	-	-	-	-
Alison Deans	**9**	**9**	**5**	**4**	-	-	**4**	**4**	**4**	**4**	-	-	-	-
Hugh Fletcher	**9**	**9**	**5**	**5**	-	-	**4**	**4**	**4**	**4**	**2**	**2**	-	-
Raymond Lim	**9**	**8**	**5**	**4**	**4**	**4**	-	-	-	-	-	-	-	-
Tom Pockett[(e)]	**3**	**3**	**3**	**2**	-	-	**1**	**1**	**1**	**1**	-	-	-	-
Dr Nora Scheinkestel[(f)]	**2**	**2**	**1**	-	-	-	**1**	**1**	**1**	**1**	-	-	-	-
Philip Twyman	**9**	**9**	**5**	**5**	-	-	**4**	**4**	**4**	**4**	**1**	**1**	**2**	**2**
Michael Wilkins	**9**	**8**	**5**	**5**	-	-	-	-	-	-	**4**	**4**	-	-

(a) The Nomination Committee was established on 1 July 2014.

(b) Elizabeth Bryan was appointed on 5 December 2014.

(c) Yasmin Allen was a member of the Nomination Committee until 12 June 2015.

(d) Peter Bush was a Director to 1 January 2015.

(e) Tom Pockett was appointed on 1 January 2015.

(f) Dr Nora Scheinkestel was a Director to 16 September 2014.

PRINCIPAL ACTIVITY

The principal continuing activity of the Group is the underwriting of general insurance and related corporate services and investing activities.

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

- Australia Personal Insurance – provides general insurance products to individuals throughout Australia primarily under the NRMA Insurance, SGIO, SGIC and CGU brands, in Victoria under the RACV brand (via a distribution and underwriting relationship with RACV) and the Coles Insurance brand nationally (via a distribution agreement with Coles);
- Australia Commercial Insurance - provides commercial insurance to business customers throughout Australia, predominantly under the CGU, WFI, and Swann Insurance brands through intermediaries including brokers, authorised representatives and distribution partners;
- New Zealand - comprises the general insurance business underwritten through subsidiaries in New Zealand. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI and Lumley Insurance brands. Personal and commercial products are also distributed by corporate partners, such as large financial institutions, using third party brands;
- Asia - comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand, Vietnam and Indonesia 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, capital management activity, placement of the Group's reinsurance program, inward reinsurance from associates and investment of the shareholders' funds.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

Insurance Australia Group Limited has produced a sound operating performance in an environment of increasingly competitive conditions, including a notably softer commercial market. This outcome attests to the strength of the Group's core franchises in Australia and New Zealand and the considerable improvement in their collective underlying performance in recent years.

Despite the cyclical industry pressures experienced, like-for-like business volumes and underlying profitability held up well, supporting delivery of a cash return on equity (ROE) in excess of the Group's through-the-cycle target of 15%. With a substantial portion of the benefits from the integration of the former Wesfarmers business and the move to a new operating model in Australia yet to be realised, the Group is well-placed to absorb further competitive pressure and to respond to any cyclical improvement in the medium term.

While Australia and New Zealand are expected to represent the majority of the Group's earnings base in the foreseeable future, a key facet of IAG's strategy is its pursuit of the long term growth potential in Asia. The Group will continue to pursue appropriate opportunities within its target markets in the region, where low insurance penetration and rising middle class affluence and consumption present compelling growth prospects. In particular, the Group has expressed an interest in gaining a national exposure to the Chinese market.

The Group's profit after tax for the financial year was $830 million (2014-$1,330 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $728 million (2014-$1,233 million). Reported profitability in the 2015 financial year was 41% lower than that of the prior year, largely owing to the severe incidence of net natural peril claim costs, notably in the second half of the current year.

Total gross written premium (GWP) growth of 17.0% (2014-3.0%) primarily reflected the first-time inclusion of the former Wesfarmers business, where related attrition levels remained at the upper end of the Group's 5-10% expectations over the course of the year. In a low growth environment, like-for-like GWP was relatively flat, incorporating:

- modest GWP growth in personal lines, driven by short tail motor and home products;
- heightened competitive pressures in commercial lines, in both Australia and New Zealand, compared to the prior year;
- the ongoing relative absence of input cost pressures, resulting in minimal cause for rate increases; and
- the maintenance of underwriting discipline in the face of softer pricing, notably in commercial lines.

The reported insurance margin of 10.7% (2014-18.3%) incorporates:

- net natural peril claim costs of $1,048 million, which were $348 million higher than the related allowance and after exhaustion of the $150 million reinsurance cover in excess of the current year perils allowance of $700 million;
- a reduced favourable impact of $33 million from the narrowing of credit spreads, compared to $100 million in the prior year; and
- Prior period net reserve releases of $167 million, inclusive of strengthening related to the New Zealand earthquakes in the 2011 financial year. This is equivalent to 1.6% of net earned premium (NEP), down from $248 million (2014-2.9% of NEP) in the prior year.

In the current financial year the Group materially strengthened its gross claim reserves in respect of the 2010 and 2011 Canterbury earthquake events in New Zealand. The main contributory factors were:

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

The bulk of the gross earthquake claim reserve strengthening occurred at the end of the first half of the financial year. A more modest increase was recognised at 30 June 2015, resulting in gross claim reserves for the February 2011 event exceeding the applicable reinsurance limit of NZ$4 billion and bringing the Group on risk. The loss estimates for the other major earthquake events remain well below their respective reinsurance limits.

While the Group believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events there remains a degree of uncertainty as to the ultimate cost. As at 30 June 2015, 78% of all earthquake-related claims by number had been fully settled (2014-58%).

The Group's underlying profitability has remained strong, with an underlying margin of 13.1%, compared to 14.2% in the prior financial year. The reduction in underlying margin reflects the impact of softer commercial market conditions and, more significantly, the first-time incorporation of the lower margin former Wesfarmers business.

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.

	2015		2014	
INSURANCE MARGIN	**$m**	**%**	$m	%
Reported insurance margin*	**1,103**	**10.7**	1,579	18.3
Net natural peril claim costs less allowance	**348**	**3.3**	(87)	(1.0)
Reserve releases in excess of 1% of NEP	**(64)**	**(0.6)**	(162)	(1.9)
Credit spread movements	**(33)**	**(0.3)**	(100)	(1.2)
Underlying insurance margin	**1,354**	**13.1**	1,230	14.2

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

Integration of the former Wesfarmers business and the Group's move to a new operating model in Australia are progressing to plan and are expected to generate significant annualised benefits by the end of the financial year ending 30 June 2016 ($230 million pre-tax). A relatively small portion of these benefits was realised in the 2015 financial year, with the Group exiting the year at a pre-tax benefit run rate of around $80 million, in line with expectations. Related benefits are reflected across a combination of the reinsurance, claims and administration expense lines.

The Group reported a tax expense of $119 million, compared to $472 million in the prior year, representing an effective tax rate (pre-amortisation) of approximately 11%.

This unusually low tax rate largely reflects reinsurance recoveries recognised in the period which relate to the 2010 and 2011 Canterbury earthquake events in New Zealand. A substantial portion of these recoveries is recorded by the Group's captive vehicle in the lower tax jurisdiction of Singapore.

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

The 2015 financial year tax expense reconciles to the prevailing Australian corporate rate of 30% after allowing for:

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

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

Investment income on shareholders' funds was a profit of $231 million, a decrease of over 42% on the profit of $400 million in the prior financial year. The lower outcome was driven by the markedly more modest return from equity markets, as well as lower average funds held. The broader Australian index (S&P ASX200 Accumulation) delivered a positive result of 5.7%, while the equivalent return in the financial year ended 30 June 2014 was 17.4%.

A. AUSTRALIA PERSONAL INSURANCE

Personal Insurance accounted for 49% of Group GWP and continued to perform well, with a strong underlying margin of 13.9% which was lower than the prior year owing to changed business mix and some softening of current year compulsory third party (CTP) profitability. The business' reported margin of 15.9% (2014-21.4%) was also lower than the prior financial year, following an adverse movement of nearly 400 basis points owing to increased net natural peril claim costs, which was partially offset by higher prior period reserve releases. GWP growth of 5.2% was largely sourced from incoming former Wesfarmers personal lines volumes. Modest like-for-like growth was achieved in short tail personal lines, while lower long tail GWP reflected the exit from the Queensland CTP market in the prior year and increased competition in the Australian Capital Territory (ACT).

I. Premiums

Personal Insurance's GWP increased by 5.2%, to $5,614 million (2014-$5,335 million). This largely reflects the first-time inclusion of personal lines of the former Wesfarmers business, including volumes related to the Coles distribution agreement. Like-for-like GWP growth was modest and was derived from a mixture of volume and rate.

The division's overall GWP performance continued to be characterised by high retention levels, coupled with good conversion of limited new business opportunities. Notable enhancements to Personal Insurance's overall customer offering during the financial year were the release of new funeral and income protection products, both underwritten by a third party. The financial year results also benefited from the new travel insurance product and improved loyalty scheme, both of which were launched late in the previous financial year.

II. Insurance profit

Personal Insurance reported an insurance profit of $788 million for the financial year ended 30 June 2015, compared to $1,016 million in the previous year. This equates to a lower reported insurance margin of 15.9% (2014-21.4%).

The main influence on the lower reported margin was the significantly higher level of net natural peril claim costs, which resulted in a 3.8% adverse margin effect after allowance, compared to the previous financial year. The combination of higher prior period reserve releases and a lower favourable credit spread effect had a mildly negative impact on the reported margin, compared to the prior year.

At an underlying level, Personal Insurance's performance remained strong across the year. The lower current year underlying margin reflects the combination of:

- the first-time inclusion of lower margin former Wesfarmers business volumes, including Coles;
- the increased reinvestment in the business; and
- some deterioration of CTP profitability owing to the increased level of lower severity claims.

III. CTP adverse development cover (ADC)

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

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

B. AUSTRALIA COMMERCIAL INSURANCE

Commercial Insurance recorded GWP growth of over 40%, reflecting the addition of the former Wesfarmers business, where attrition remained of the order of 10%. Like-for-like (ex-Wesfarmers) GWP growth was modestly negative, owing to slightly lower average rates and the maintenance of underwriting discipline in an increasingly competitive commercial market. The business maintained a double digit underlying margin, with the slightly reduced outcome compared to the prior year reflecting inclusion of the lower margin former Wesfarmers business and tougher market conditions. The reported margin of 3.0% was considerably lower than the prior year, largely owing to an adverse effect of over 1,100 basis points from the combination of significantly higher net natural peril claim costs and lower reserve releases.

I. Premiums

Commercial Insurance GWP of $3,192 million represented growth of 40.7% over the prior financial year (2014-$2,268 million). This reflects the first-time inclusion of the former Wesfarmers business, which has delivered a market-leading position in the Australian commercial insurance market.

Commercial Insurance encountered cyclically softer market conditions over the course of the financial year, resulting in a modest contraction in reported GWP on a like-for-like (ex-Wesfarmers) basis. While partly reflecting lower input costs which have been passed on to customers, there has also been evidence that general business conditions have resulted in lower average premiums, predominantly on new business.

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

II. Insurance profit

Commercial Insurance reported an insurance profit of $93 million, a substantial decrease compared to the previous financial year (2014-$371 million). This equates to a reported insurance margin of 3.0% (2014-18.3%).

The lower reported margin reflects the net effect of:

- a substantially higher net natural peril claim cost of $426 million, well in excess of allowance;
- a $10 million reduction in prior period reserve releases;
- a lower, but still favourable, credit spread movement of $14 million (2014-$35 million); and
- the first-time inclusion of the lower margin former Wesfarmers business.

Commercial Insurance produced a satisfactory underlying margin of 10.5%, compared to 12.1% in the prior year. This decline is a function of incorporating the lower margin former Wesfarmers business and the impact of softer commercial market conditions in Australia.

III. Fee based business

Commercial Insurance generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes that are underwritten by the respective State governments. Net income from fee based operations was $16 million, compared to $9 million in the previous financial year.

C. NEW ZEALAND

New Zealand continued to perform strongly at an underlying level, while the reported margin was slightly lower than the prior year. This was after an earthquake-related net reserve strengthening which served to reduce the full year outcome by over 600 basis points, partially offset by a favourable natural perils experience, particularly in the first half of the year. The business has maintained its market-leading position, with GWP growth of 22.8% derived from the former Wesfarmers business and a favourable foreign exchange translation effect. Modest like-for-like growth in direct personal lines was countered by tougher conditions in the commercial market, where underwriting discipline has been maintained.

I. Premiums

New Zealand's GWP of $2,267 million represented an increase of 22.8% over the prior year (2014-$1,846 million). This strong growth reflects the first contribution from Lumley Insurance (Lumley) following its acquisition as part of the Wesfarmers transaction and a favourable exchange rate effect compared to the prior year.

Excluding Lumley, local currency GWP fell slightly, reflecting:

- softening premium rates and additional capacity in commercial lines;
- ongoing aggressive competition across the intermediated business;
- a small reduction, primarily in the second half of the year, from the transfer of the health portfolio and the outsourcing of a large portion of the travel portfolio to third parties; and
- offsetting solid growth in direct personal lines, particularly in the home owner and private motor vehicle areas.

II. Insurance profit

The New Zealand business produced an insurance profit of $216 million (2014-$180 million), which was a strong result in a competitive environment. The result equated to a reported insurance margin of 10.8% (2014-11.5%).

The slightly lower reported insurance margin reflects the combination of:

- continued focus on pricing and underwriting discipline, while balancing affordability for customers with availability of insurance capacity;
- ongoing operational improvements across the business and the realisation of initial benefits associated with the Lumley integration;
- relatively benign natural peril activity, despite the pick-up in events in the second half of the financial year; and
- reserve strengthening in respect of the 2011 financial year earthquakes, which has seen the Group exceed its reinsurance cover for the February 2011 event.

The New Zealand business' underlying margin was consistently strong across the financial year ended 30 June 2015, while absorbing high regulatory and reinsurance costs in an increasingly competitive environment.

III. Canterbury Rebuild

Over the course of the financial year, there was a significant increase in the expected final claim cost arising from the series of earthquakes that affected the Canterbury region in 2010 and 2011. This was primarily driven by:

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

The bulk of the increase relates to the 22 February 2011 event. At 30 June 2015, gross claim reserves for the February 2011 event now exceed the applicable reinsurance limit of NZ$4 billion, bringing the Group on risk for any further development. Loss estimates for the other major earthquake events are expected to settle well below respective reinsurance limits.

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

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

D. ASIA

IAG's combined operation in Asia continues to make sound progress towards its long term goals, with the fundamental underwriting performance of the established businesses remaining strong and developing markets progressing broadly to plan. Asia is expected to be an important source of long term growth for the Group.

Asia achieved an improved operating performance in the financial year ended 30 June 2015 as it continues to accelerate its operational development and enhancement of risk management and governance.

A key milestone in the current financial year was the acquisition at the end of April 2015 of PT Asuransi Parolamas (Parolamas) in Indonesia, fulfilling IAG's presence in its six target markets in the Asian region. IAG is now focused on securing a distribution agreement with a recognised local partner to capitalise on opportunities presented in a market with a low insurance penetration and a growing middle-class.

During the year there was a $60 million writedown of the investment in Bohai Property Insurance Company Ltd (Bohai Insurance) in China. This was influenced by a revision to the expected cash flows of the business, together with the indicated issue price of new shares in a capital raising in which IAG does not intend to participate.

I. Divisional result

The division contributed a total profit of $21 million, including shares of associates and allocated costs. This compares to a $14 million profit in the prior financial year, and comprises:

- strong underlying performances by the established businesses in Thailand and Malaysia;
- an improved operating performance from each of the developing businesses in India, China and Vietnam;
- a favourable movement in mark-to-market valuations of investments, including those within associates' shareholders' funds; and
- modestly higher regional support and development costs of $32 million (2014-$31 million).

Asia saw strong growth in consolidated GWP of over 11%, driven by a resumption of growth in Thailand, as more stable political conditions benefited economic activity. IAG now participates in a gross regional annualised GWP pool of nearly $1.7 billion, an increase of over 13% compared to the prior year.

II. Controlled entities

GWP from the Group's controlled entities was $353 million, which was an increase of over 11% on the corresponding prior financial year (2014-$317 million), within this:

- the Thai business (Safety Insurance) reported an increase in GWP of nearly 16% to $334 million from $288 million for the prior year, reflecting increased focus on the used car market, improved renewal retention, softening rates in the commercial motor and property segments and improved domestic demand; and
- AAA Assurance in Vietnam recorded GWP equivalent to $18 million (2014-$29 million). The decline of nearly 40% follows the decision to withdraw from the distribution of loan protection insurance with a bank partner on profitability grounds, which took effect from the end of the first quarter of the financial year.

The insurance profit delivered by the controlled entities for the current year was $17 million (2014-$23 million) excluding allocated costs. Within this:

- the Thai business reported an insurance profit of $15 million, compared to $28 million in the corresponding prior year. The reduction was driven by a higher incidence of large fire losses, the absence of prior year reserve releases, and increased commission costs;
- AAA Assurance contributed an insurance profit of $2 million (2014-$5 million loss); and
- there was a negligible contribution from Parolamas in Indonesia, which was consolidated by IAG from May 2015. Parolamas has a GWP base of approximately $12 million per annum.

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

The Group's share of associates was a profit of $36 million (2014-$22 million), excluding allocated costs and before amortisation. This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia, SBI General Insurance Company Limited (SBI General) in India, and Bohai Insurance. AmGeneral accounts for the majority of the Group's share of net profit from associates. IAG's share of AmGeneral's profit for the current year increased by over 34% to $39 million (2014-$29 million), with higher prior period reserve releases, higher income owing to a favourable mark-to-market movement on the bond portfolio and lower mark-to-market losses recognised on the investments backing shareholders' funds all contributing.

E. CORPORATE AND OTHER

Revenue has decreased from $411 million in the prior year to $249 million in the financial year ended 30 June 2015. A pre- tax loss of $189 million was reported, which compares to a profit of $209 million in the corresponding prior year. The movements are predominantly due to lower investment income on shareholders' funds, net of investment fees, and increased pre-tax net corporate expenses. The current year result includes $155 million of costs, which primarily comprises restructuring costs in respect of the new operating model in Australia (implemented from 1 July 2014) and integration costs associated with the acquisition of the former Wesfarmers business.

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 2015 were $31,402 million compared to $29,748 million at 30 June 2014. Movements within the overall increase of $1,654 million include:

- an increase in deferred reinsurance premium of $1,117 million, predominantly relating to recognition of the Berkshire Hathaway quota share agreement for unearned premium ceded at reporting date;
- an increase in reinsurance and other recoveries receivable of $465 million, mainly attributable to the Brisbane hail storm and NSW east coast low events; and
- an increase in investments of $158 million from the funds inflow associated with the equity placement to Berkshire Hathaway in June 2015 and strong investment returns achieved on the technical reserves portfolio, offset by claim payments from natural peril events.

The total liabilities of the Group as at 30 June 2015 were $24,384 million compared to $22,954 million at 30 June 2014. The increase in liabilities of $1,430 million is mainly attributable to:

- a $681 million increase in gross outstanding claims, predominantly due to the heightened natural perils activity in Australia and lower discount rates impacting claim reserves on long tail classes; and
- an increase in reinsurance premium payable of $884 million, primarily as a result of the Berkshire Hathaway quota share agreement.

IAG shareholders' equity (excluding non-controlling interests) increased from $6,568 million at 30 June 2014 to $6,817 million at 30 June 2015, reflecting the combined effect of:

- the $500 million equity placement to Berkshire Hathaway in June 2015;
- a sound operating earnings performance for the financial year, resulting in a net profit attributable to shareholders of $728 million; and
- payment of the 26 cents per share final dividend declared in respect of the 2014 financial year ($609 million) and the 13 cents per share interim dividend declared in respect of the first half of the 2015 financial year ($304 million).

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the financial year ended 30 June 2015 were $698 million compared to $1,077 million for the prior financial year. The decrease is mainly attributable to the net effect of:

- an increase in claims costs paid of $1,838 million, mainly attributable to the former Wesfarmers business, natural peril events and payment of New Zealand earthquake claims;
- an increase in outwards reinsurance premium expense paid of $297 million, mainly attributable to additional cover purchased for the former Wesfarmers business and CTP adverse development cover within Australia Personal Insurance;
- a net increase in other operating payments over receipts of $343 million, primarily due to the addition of the former Wesfarmers business; and partially offset by
- an increase in premium received of $1,842 million, mainly attributable to the former Wesfarmers business; and
- an increase in reinsurance and other recoveries received of $160 million, mainly attributable to the former Wesfarmers business.

C. INVESTMENTS

The Group's investments totalled $15.5 billion as at 30 June 2015, excluding investments held in joint ventures and associates, with over 70% represented by the technical reserves portfolio. Total investments at 30 June 2014 were $15.4 billion.

As at 30 June 2015, the Group's overall investment allocation remains conservatively positioned and the credit quality of the investment book remains strong, with 81% (2014-86%) of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Technical reserves as at 30 June 2015 accounted for $11.0 billion (2014-$10.4 billion) of the Group's investments, and were entirely invested in fixed interest and cash. The current year saw the transfer of assets from shareholders' funds to technical reserves to support earthquake-related liabilities.

The Group's allocation to growth assets was 41% of the $4.5 billion of shareholders' funds at 30 June 2015 (2014-42%). Included within the Group's allocation to growth assets are Australian and international equities and alternative investments.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at $1,762 million at 30 June 2015, compared to $1,752 million at 30 June 2014. There were no changes in composition over the period, with any movement driven by foreign exchange translation effects.

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 2015, the Group's capital mix was in the lower half of the targeted range, with debt and hybrids representing 33.8% (2014-35.4%) of total tangible capitalisation.

F. CAPITAL MANAGEMENT

The Group remains strongly capitalised under APRA's Prudential Standards, with regulatory capital of $4,785 million at 30 June 2015 (2014-$4,981 million). The Group 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 2015, the Group had a PCA multiple of 1.70 (2014-1.72) and a CET1 multiple of 1.14 (2014-1.14).

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

STRATEGY

A. STRATEGIC PRIORITIES

IAG's strategic priorities are to:

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

IAG is the market leader in personal and commercial insurance in Australia and New Zealand, following the acquisition of the former Wesfarmers business. IAG is focused on embedding and sustaining this position, while maintaining underwriting discipline.

Increased efficiency is being realised via the new operating model in Australia and through the integration of the former Wesfarmers business. This includes the delivery of Enterprise Operations' operating efficiency programmes and the consolidation of IAG's IT platforms and processes.

The new operating model allows IAG to better leverage its scale and market leadership position to deliver great experiences for customers and shared value for its partners, people, communities and shareholders.

II. Grow Asian footprint and its earnings contribution

The development of IAG's business in Asia is progressing to plan, and it is now in the phase of accelerating operational development and enhancing risk management and governance. IAG has increased its capability in the region to ensure the potential of the broader Asian platform is realised over the medium to longer term.

Expansion of IAG's Asian footprint will result in a higher proportion of GWP coming from this region in the future, and more capital being invested in higher growth insurance markets.

It will support IAG's vision of being Asia Pacific's most loved, most inventive and most successful insurer.

III. Accelerate digital transformation

The exponential adoption of new technology is rapidly changing customer and competitor behaviour and creating risks of disruption to the insurance industry. It is also creating new growth opportunities for companies that embrace the changes to explore new ways to meet emerging customer needs. IAG has established a new division, IAG Labs, to take advantage of digital opportunities and enable the Group to become more innovative.

IAG Labs will help the organisation deliver great customer experiences by building the capacity and capability to rapidly develop and test new customer product and service ideas. IAG Labs incorporates the Group's core IT functions and is accountable for delivering in-flight strategic IT investments.

Bringing together IAG's existing technology, digital and venturing teams with its customer insights and analytics teams allows IAG to better understand customer needs, deliver great customer outcomes and to innovate at scale. IAG Labs will create new ways of working and drive significant cultural change, resulting in a more dynamic and innovative environment.

IV. Create deeper customer insights and an agile response

Customer needs and behaviours continue to evolve rapidly alongside changes in technology, creating a myriad of new opportunities for customers to interact with IAG.

IAG is investing in programmes to drive stronger customer-centricity, including research on customer insights, the development of customer journey maps, and the deployment of human centred design to improve customer and partner experience. IAG is investing in its data and analytics capability to deepen its understanding of customers and their assets, to simplify customer engagement processes and to drive customer value by better understanding risk patterns and helping customers minimise the cost of managing risk. This helps IAG strengthen its market leadership position by delivering superior value to customers.

The new operating model and the establishment of IAG Labs are important initiatives in supporting customer insights, designing better customer experiences and building a more agile organisation.

B. BUSINESS RISK AND RISK MANAGEMENT

Managing risk is central to the sustainability of IAG's business, its purpose and delivery of value to shareholders. IAG uses an enterprise approach to risk and its 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 approval 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, the People and Remuneration Committee (PARC) and the Nominations Committee, are set out in the Corporate Governance section of the IAG website.

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, as a result of inadequate or inappropriate underwriting, inadequate or inappropriate product pricing, unforeseen, unknown or unintended liabilities that may eventuate, inadequate or inappropriate claims management including reserving or insurance concentration risk (i.e. by locality, segment factor or distribution);
- reinsurance risk: the risk of insufficient or inappropriate reinsurance coverage, inadequate underwriting and pricing of reinsurance exposures retained by IAG's reinsurance captives, inadequate or inappropriate reinsurance recovery management, reinsurance arrangements not legally binding and reinsurance concentration risk;
- financial risk: the risk of inadequate liquidity, adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within investment funds, a counterparty failing to meet its obligations and/or inappropriate capital management; and
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

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

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

CORPORATE GOVERNANCE

IAG is committed to attaining the highest level of corporate governance to 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.

IAG's Corporate Governance Statement has been approved by the Board. For the financial year ended 30 June 2015, IAG has complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd edition) and is compliant as at 21 August 2015. Further details on IAG's corporate governance practices and Corporate Governance Statement are available at www.iag.com.au/about-us/corporate-governance.

OUTLOOK

The outlook for the financial year ending 30 June 2016 is one of relatively flat GWP, as the Group maintains its underwriting discipline in the face of what is expected to remain a low growth environment, characterised by relatively challenging market conditions and subdued inflationary pressures.

2016 financial year GWP expectations have been updated since the initial 2016 financial year guidance, of 0-3% growth, as provided on 16 June 2015. This minor revision accommodates the reported 2015 financial year outcome and recent foreign exchange movements.

Underlying profitability is expected to remain strong, as further benefits from the integration of the former Wesfarmers business and the move to the new operating model are realised, cushioning the effect of competitive pressures. In addition, implementation of the quota share agreement with Berkshire Hathaway from 1 July 2015 is expected to reduce earnings volatility applicable to 20% of the Group's business.

The Group's reported insurance margin guidance for the 2016 financial year remains at 14-16%. This includes an at least 200 basis points favourable effect from the implementation of the quota share.

Underlying assumptions behind the reported margin guidance are:

- net losses from natural perils in line with an allowance of $600 million;
- prior period reserve releases of at least 1% of NEP; and
- no material movement in foreign exchange rates or investment markets.

The 2016 financial year is also expected to see Asia report a stronger underlying performance, alongside progress in expanding the Group's regional footprint, including the dial-up of ownership in India to 49%.

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 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 (post-tax); and
- excluding any unusual items (non-recurring in nature, for example the expenses associated with restructuring) after tax.

CASH EARNINGS	**2015 $m**	2014 $m
Net profit after tax	**728**	1,233
Intangible amortisation and impairment	**150**	21
	878	1,254
Unusual items:		
Corporate expenses	**155**	68
Tax effect on corporate expenses	**(46)**	(16)
Cash earnings*	**987**	1,306
Interim dividend	**304**	304
Final dividend	**389**	609
Dividend payable	**693**	913
Cash payout ratio*	**70.2%**	69.9%

* 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 16.0 cents per ordinary share (2014-26.0 cps). The final dividend is payable on 7 October 2015 to shareholders registered as at 5pm on 9 September 2015.

The Company's Dividend Reinvestment Plan (DRP) will operate for the final dividend by acquiring shares on-market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the Company's DRP is 10 September 2015. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- Effective 1 July 2014 the Group implemented a new operating model for its Australian operations, creating a more customer focused and efficient organisation. This change is reflected in the segment reporting note within the Financial Statements.
- On 16 June 2015, IAG announced it had formed a strategic relationship with Berkshire Hathaway, comprising:
  - an exclusive operating relationship in Australia and New Zealand;
  - a ten-year, 20% whole-of-account quota share arrangement, commencing 1 July 2015;
  - a $500 million equity placement to Berkshire Hathaway (through National Indemnity Company), representing approximately 3.7% of IAG's expanded issued capital (with anti-dilution arrangements); and
  - a put option exercisable by IAG to place further new shares to National Indemnity Company within 24 months after 16 June 2015. Refer to the notes to the statement of changes in equity note for further details.

The Group regards this strategic relationship, which builds on its long-standing relationship with Berkshire Hathaway, as endorsing IAG's strategy and the strength of its franchises in the Asia Pacific region. Expected benefits include the harnessing of complementary operating capabilities, reduced earnings volatility via the quota share and significant capital flexibility.

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. These include:

- On 21 August 2015, the Board determined to pay a final dividend of 16 cents per share, 100% franked. The dividend will be paid on 7 October 2015. The dividend reinvestment plan will operate by acquiring shares on-market for participants with no discount applied; and
- The announcement on 11 August 2015 that Mr Jonathan Nicholson will be appointed to the IAG Board, as an Independent Non-Executive Director, effective 1 September 2015.

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 amounted to approximately $1.2 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 36 and forms part of the Directors' Report for the year ended 30 June 2015.

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.

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 2015.

The People and Remuneration Committee (PARC) reaffirms its commitment to delivering remuneration outcomes that reflect both business performance and shareholder returns, as well as ensuring IAG is able to continue to attract and retain high quality executives.

To achieve these objectives, IAG's remuneration structure is underpinned by five key principles:

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

The following table provides a summary of some key highlights for the year ended 30 June 2015:

2015 HIGHLIGHTS	SUMMARY
Fixed remuneration remains competitive	IAG assesses the fixed remuneration of its Executives against the market. IAG provided Executives with a 1.5% increase in the year ended 30 June 2015. On the recommendation of the Executive team and in recognition of the difficult market conditions in which we are operating, in August 2015 the PARC determined not to provide further fixed pay increases to our Executive team for the 2016 financial year. Our goal continues to be to provide 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 sound	Short term performance for the year ended 30 June 2015 was sound. Despite a decline in insurance margin due to adverse natural perils, IAG evolved its operating model in Australia and continued the integration of the former Wesfarmers business to secure its leading position in both Australia and New Zealand. Reflecting these achievements, the average Short Term Incentive (STI) payment was 61% of the maximum achievable for the Group CEO and Group Executives.
IAG delivers sustained long term performance	IAG once again exceeded its ROE and relative TSR targets. Based on three and four years of strong returns as measured by the ROE and TSR components of the LTI plan, both hurdles were met and the LTI for the Group CEO and Executive team tested during the year ended 30 June 2015 vested in full.
Shareholder interests are aligned through a mandatory shareholding requirement	IAG believes strongly in aligning the interests of Non-Executive Directors (NEDs) and Executives with those of shareholders. To achieve this alignment, NEDs and Executives are required to hold a significant number of IAG shares and all exceeded their requirement at 30 June 2015.

To satisfy IAG's ongoing governance of reward and APRA regulations, we conducted an assessment to determine if any adjustment of unvested or unexercised equity grants was required. The Board of Directors is satisfied that no adjustment is necessary.

The Board had an independent assessment of its remuneration undertaken. As a consequence, in the year ended 30 June 2015 the Board increased the fees for the main Board and Committees by 3% to maintain its positioning against the market. In August 2015, the People and Remuneration Committee determined not to increase the main Board fees for the 2016 financial year, consistent with the approach adopted for executive fixed remuneration. It was determined to increase Committee fees (excluding the Nominations Committee) to better align these fees to the market.

IAG 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 the company voluntarily discloses the actual remuneration received by Executives, in addition to meeting our statutory reporting obligations.

The People and Remuneration Committee is confident that IAG's remuneration framework supports the Group's financial and strategic goals now and into the future.

Yours sincerely

Elizabeth Bryan
Chairman - People and Remuneration Committee

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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	The 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 (non-recurring in nature, for example the expenses associated with restructuring). 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 2015 that is paid in the form of cash in September 2015, following the end of year assessment and approval by the Board of Directors.
Corporate Office Executives	The Chief Financial Officer, Chief Risk Officer, Chief Strategy Officer and Chief Executive, IAG Labs.
Deferred STI/Deferred Award Rights (DAR)	The one-third portion of STI 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.
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.

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.

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
Ben Bessell [(a)]	Acting Chief Executive, Commercial Insurance	Part year
Duncan Brain	Chief Executive, Asia	Full year
Andy Cornish	Chief Executive, Personal Insurance	Full year
Peter Harmer [(b)]	Chief Executive, IAG Labs	Full year
Alex Harrison [(c)]	Chief Executive, Enterprise Operations	Full year
Nicholas Hawkins	Chief Financial Officer	Full year
Jacki Johnson	Chief Executive, New Zealand	Full year
Leona Murphy [(d)]	Chief Strategy Officer	Full year
Clayton Whipp [(e)]	Chief Risk Officer	Full year
Executives who ceased as key management personnel		
Justin Breheny [(f)]	Chief Risk Officer	Part year
Non-Executive Directors		
Brian Schwartz	Chairman, Independent Non-Executive Director	Full year
Elizabeth Bryan [(g)]	Deputy Chairman, Independent Non-Executive Director	Part year
Yasmin Allen	Independent Non-Executive Director	Full year
Alison Deans	Independent Non-Executive Director	Full year
Hugh Fletcher	Independent Non-Executive Director	Full year
Raymond Lim	Independent Non-Executive Director	Full year
Tom Pockett [(h)]	Independent Non-Executive Director	Part year
Philip Twyman	Independent Non-Executive Director	Full year
Non-Executive Directors who ceased as key management personnel		
Peter Bush [(i)]	Independent Non-Executive Director	Part year
Dr Nora Scheinkestel [(j)]	Independent Non-Executive Director	Part year

(a) Ben Bessell commenced as a KMP on 31 March 2015 in the role of acting Chief Executive, Commercial Insurance.

(b) From 1 July 2014, Peter Harmer held the role of Chief Executive, Commercial Insurance. Effective 1 April 2015, he commenced in the role of Chief Digital Officer and has subsequently been appointed Chief Executive, IAG Labs (effective 31 July 2015).

(c) Alex Harrison commenced as a KMP on 1 July 2014 in the role of Chief Executive, Enterprise Operations. Alex Harrison will cease as a KMP on 31 August 2015.

(d) From 1 July 2014, Leona Murphy held the role of Chief Transformation Officer. Effective 31 March 2015, she resumed the role of Chief Strategy Officer.

(e) Clayton Whipp commenced as a KMP on 1 July 2014 in the role of acting Chief Strategy Officer. He was subsequently appointed Chief Risk Officer on 31 March 2015.

(f) Effective 31 March 2015, Justin Breheny retired from the role of Chief Risk Officer and ceased as a KMP.

(g) Elizabeth Bryan commenced as an Independent Non-Executive Director on 5 December 2014.

(h) Tom Pockett commenced as an Independent Non-Executive Director on 1 January 2015.

(i) Peter Bush ceased as an Independent Non-Executive Director on 1 January 2015.

(j) Dr Nora Scheinkestel ceased as an Independent Non-Executive Director on 16 September 2014.

B. 2015 SNAPSHOT

I. Actual remuneration received by Executives

The actual remuneration paid to Executives during this and the previous financial year 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 F.

TABLE 1 - ACTUAL REMUNERATION RECEIVED IN 2015 AND 2014

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	**2015**	**2,112**	**232**	**-**	**1,314**	**1,232**	**5,514**	**10,404**
	2014	2,077	253	-	1,796	1,243	6,038	11,407
Ben Bessell(8)	**2015**	**123**	**(7)**	**-**	**65**	**-**	**-**	**181**
Duncan Brain(9)	**2015**	**921**	**263**	**-**	**469**	**210**	**429**	**2,292**
	2014	679	378	-	347	-	-	1,404
Andy Cornish(10)	**2015**	**1,052**	**93**	**-**	**602**	**469**	**2,290**	**4,506**
	2014	879	(54)	-	487	590	2,457	4,359
Peter Harmer	**2015**	**1,012**	**(23)**	**-**	**473**	**432**	**2,152**	**4,046**
	2014	995	(26)	-	704	326	1,672	3,671
Alex Harrison(9)	**2015**	**849**	**51**	**-**	**611**	**192**	**397**	**2,100**
	2014	218	(1)	-	125	-	-	342
Nicholas Hawkins	**2015**	**1,012**	**56**	**-**	**603**	**463**	**2,198**	**4,332**
	2014	995	(11)	-	731	489	2,342	4,546
Jacki Johnson(11)	**2015**	**1,096**	**(43)**	**-**	**418**	**398**	**1,949**	**3,818**
	2014	1,048	37	-	565	409	2,222	4,281
Leona Murphy	**2015**	**910**	**38**	**-**	**505**	**411**	**1,981**	**3,845**
	2014	895	13	-	569	431	2,109	4,017
Clayton Whipp	**2015**	**755**	**64**	**-**	**341**	**211**	**367**	**1,738**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Justin Breheny(12)	**2015**	**702**	**205**	**-**	**546**	**446**	**2,024**	**3,923**
	2014	915	193	-	579	490	2,222	4,399

TABLE NOTE

(1) Represents base salary plus superannuation and included an annual pay increase of 1.5% effective September 2014.

(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 9 in Section F.

(3) No termination payments were made to Executives in the 2015 financial year.

(4) Represents two thirds of the STI for the relevant financial year. Details are provided in table 6 in Section E.

(5) Deferred STI that vested in the relevant financial year. Details are provided in table 10 in Section F. The five day weighted average share price used to value the deferred STI at vesting date is $6.49 for awards vested on 1 September 2014. For the financial year ended 30 June 2014 the prices were $5.47 for awards vested on 1 July 2013 and $5.78 for awards vested on 1 September 2013.

(6) LTI that vested in the relevant financial year. Details of the plan are provided in table 11 in Section F. The five day weighted average share price at vesting date is $6.27 for awards vested on 20 August 2014 and $6.18 for awards vested on 30 September 2014 (23 August 2013: $5.83 - 30 September 2013: $5.88).

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

(8) Remuneration reported for Ben Bessell relates only to his role as Acting Chief Executive, Commercial Insurance, which commenced on 31 March 2015. Share based remuneration provided in the current financial year did not relate to his role as Acting Chief Executive, Commercial Insurance and has not been disclosed.

(9) Remuneration for Duncan Brain and Alex Harrison has increased as for the first time both executives were KMP for the full period in the year ended 30 June 2015. In the 2014 financial year, no share based payments were disclosed for these executives as those payments were not related to their roles as KMP.

(10) Remuneration received by Andy Cornish was higher in the year ended 30 June 2015 than the previous financial year as he took a three-month period of unpaid leave in the 2014 financial year.

(11) 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 2015 was NZD1 = AUD0.93060 (2014-NZD1 = AUD0.90485).

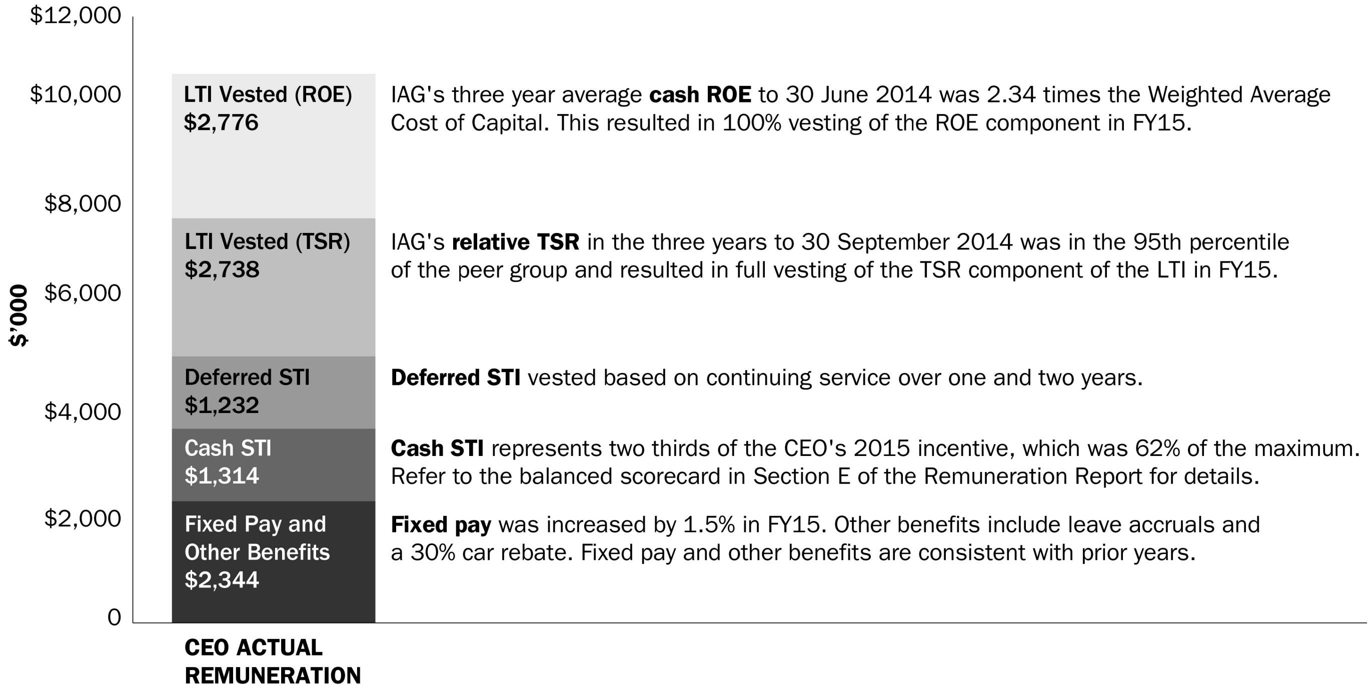
(12) Other benefits received by Justin Breheny include the accrual of annual and long service leave, the value of the interest that would have accrued on his loan plus the related FBT and accommodation allowance.

II. Actual remuneration explained

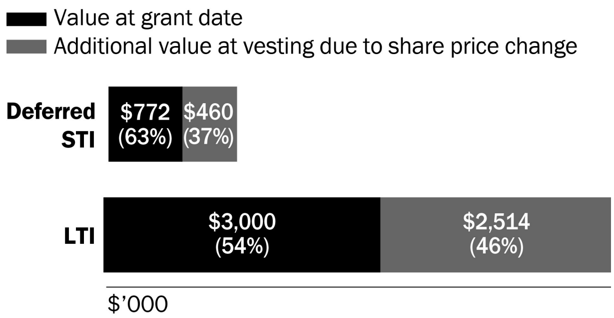
The actual remuneration outlined in table 1 shows a significant proportion of the total reward comprising at risk remuneration and in particular the LTI. Given IAG's strong long term performance, the value of variable reward represents a significant proportion of the total actual reward received, highlighting the strength of the link between the incentive outcomes for IAG's Executives and IAG's performance.

The actual remuneration received in a given year is based on IAG's performance over a number of different time periods and for achieving different, challenging objectives. The following graph illustrates the Group CEO's remuneration as an example, broken down into the components of his remuneration plan. Beside each remuneration component is a description of the timeframe and the objective achieved to receive this remuneration.

CEO FY15 PERFORMANCE AND ACTUAL REMUNERATION OUTCOMES



INCENTIVE VALUE AT GRANT AND AT VESTING



Significant elements of the total actual reward received by the Group CEO are those of the deferred STI and LTI plans. The disclosed value of both plans is impacted by a significant increase in the value of IAG's share price since they were allocated, which also benefited IAG's shareholders. The adjacent graph outlines the dollar value and proportion of deferred STI and LTI when they were awarded as well as the additional value achieved through share price growth.

IAG's ROE has been positively reflected in the dividends shareholders receive as well as the LTI for executives, further demonstrating the alignment of reward to our shareholder interests. IAG's performance has resulted in sound dividend payments provided to shareholders over a number of years. The dividend paid/payable to shareholders for the year ended 30 June 2015 is 29 cents per ordinary share. IAG continues to adhere to its dividend policy of paying approximately 50–70% of reported cash earnings to shareholders in any given financial year.

C. EXECUTIVE REMUNERATION 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.

I. 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. A copy of the PARC's charter is available on the IAG website at www.iag.com.au/about-us/corporate-governance.

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.

II. Remuneration guiding principles

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

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

III. Use of remuneration consultants

The PARC engages remuneration consultants to provide advice that ultimately assists the Board in making remuneration decisions. The PARC did not engage external remuneration consultants during the 2015 financial year, as an extensive market benchmarking exercise was conducted in 2014. In 2014, the then 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. Based on IAG's research, these insights remain relevant in 2015.

IV. Mandatory shareholding requirements

As part of IAG's philosophy of aligning the interests of Executive and Non-Executive Directors with those of shareholders, all Executive 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 and the executive's base salary from four years prior. 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 2011 were required to meet the mandatory shareholding requirement at 30 June 2015 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 using the closing share price at 30 June and the Non-Executive Directors' Board fee from three years prior.

Non-Executive Directors appointed prior to 30 June 2012 were required to meet the mandatory shareholding requirement at 30 June 2015 and all have done so.

Refer to Section J Related Party Interests for further information.

V. Adjustment policy

From 2010, IAG introduced a discretionary provision to enable variable remuneration 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.

Each year, an investigation is conducted to assess whether adjustment of remuneration is required. This assessment requires the Group CEO, the Chief Risk Officer, the Chief Financial Officer, Chief Strategy Officer and each divisional CEO to attest as to whether an adjustment is necessary to the remuneration of any individual or group of employees. The PARC and Board separately consider these attestations in conducting their own assessment of whether adjustment to variable remuneration is appropriate.

In the year ended 30 June 2015, this investigation did not reveal any requirement for the Board to adjust remuneration for the purposes discussed above.

D. EXECUTIVE REMUNERATION STRUCTURE

I. Summary of remuneration components

The remuneration components for the Executives are explained below:

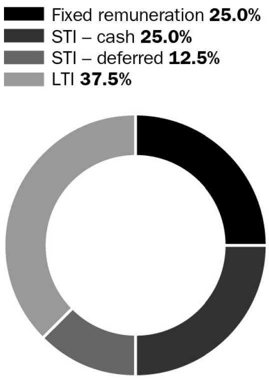
TABLE 2 - SUMMARY OF REMUNERATION COMPONENTS

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. ■ Number of DAR issued based on face value of an IAG ordinary share. ■ The actual value of shares will depend on the future share price. ■ The Board has discretion to adjust remuneration 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. ■ Protect the financial soundness of the Group.
	LTI	■ Provided as a grant of rights in the form of EPR. ■ Number of EPR issued based on face value of an IAG ordinary share. ■ 3-4 year performance period. ■ Subject to performance hurdles of relative TSR and ROE being achieved. ■ The Board has discretion to adjust remuneration 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. ■ Protect the financial soundness of the Group.

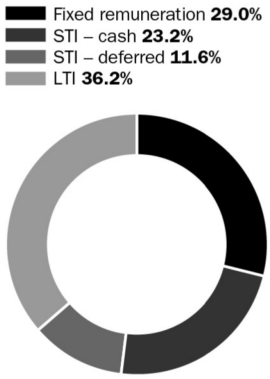
II. Potential remuneration mix

Total remuneration for the Group CEO and the Executive team comprises a mix of fixed remuneration 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 2015. STI and LTI are based on maximum opportunities.

III. Remuneration components in detail

a. FIXED REMUNERATION

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. Fixed remuneration is reviewed regularly using independent remuneration benchmarking data. The appropriate market benchmark is determined considering organisation size, industry and geographic location. 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.

The average fixed remuneration increase for the Executive team for the year ended 30 June 2015 was 1.5% effective September 2014. In August 2015, the Board endorsed management's recommendation not to increase the annual fixed remuneration for the Executive team for the 2016 financial year.

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.

i. Cash and deferred STI

Key details of the STI plan are shown below:

TABLE 3 - STI PLAN

<table>
<tr><td>Description</td><td>STI refers to the at-risk remuneration designed to motivate and reward for performance in a set financial year.</td></tr>
<tr><td>Potential maximum STI amount</td><td>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.</td></tr>
<tr><td>Performance measures and rationale</td><td>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 5).

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 in the year ended 30 June 2015.

<table>
<tr><th rowspan="2">ROLE</th><th colspan="2">FINANCIAL MEASURES</th><th rowspan="2">NON-FINANCIAL MEASURES</th></tr>
<tr><th>Group financial targets</th><th>Division or business financial targets</th></tr>
<tr><td>Group CEO</td><td>50%</td><td>N/A</td><td>50%</td></tr>
<tr><td>Divisional Executives</td><td>10%</td><td>40%</td><td>50%</td></tr>
<tr><td>Corporate Office Executives</td><td>40%</td><td>10%</td><td>50%</td></tr>
</table>
</td></tr>
<tr><td>Testing of performance measures</td><td>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.</td></tr>
<tr><td>Instrument</td><td>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.</td></tr>
<tr><td>Key terms of the deferred STI</td><td>Deferred STI is issued in the form of DAR, which are rights over IAG ordinary shares which are held by a trustee. They are issued to Executives during the financial year at no cost, to the value of their deferred STI amount. The number of DAR issued uses the face value of IAG ordinary shares at 30 June before the grant date. 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.</td></tr>
<tr><td>Forfeiture conditions</td><td>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.</td></tr>
</table>

ii. Long term incentive

Key details of the LTI plan are shown below:

TABLE 4 - 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 an IAG ordinary share 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 uses 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 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 3-4 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 stretch strategic target of achieving an ROE that is one and a half times greater than its WACC. 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 that of 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 2018 for the September 2014 grant). The TSR portion of awards granted after 1 July 2013 is subject to a four year performance period with no additional opportunity for retesting. For EPR granted prior to 1 July 2013, the TSR portion of LTI is tested three years after the base date 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.

E. LINKING PERFORMANCE AND REWARD

I. Linking IAG's short term performance and short term reward

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 2015. 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 5 - BALANCED SCORECARD OBJECTIVES AND PERFORMANCE REQUIREMENTS

CATEGORY	OBJECTIVE	WEIGHTING	OUTCOME
Financial	Return on risk based capital	25%	Did not meet target: The Group sets targets to achieve a return on its risk based capital that require outperformance through the cycle and represents a stretch target. This return reflects how effectively IAG uses its capital and is directly aligned to the Group's strategic target of achieving an ROE of 1.5 times the weighted average cost of capital. In the year ended 30 June 2015, the Group reported a return on risk based capital that was approximately 10% lower than its budget.
	Profitable growth	15%	Did not meet target: To grow profitably and create value for shareholders, IAG needs to expand its products, markets and customer base. Although GWP increased by 17% to $11.4 billion during the year ended 30 June 2015 (in 2014, GWP increased by 3%), this did not meet IAG's challenging target set with consideration of the additional GWP from the integration of the former Wesfarmers business.
	Capital and 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 2015 of 1.70 (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). The Group also formed a strategic partnership with Berkshire Hathaway which provides significantly enhanced capital flexibility. IAG has embedded risk management strategies that align governance, risk and strategy approaches across the Group.
Non-financial	Customer, partner and employee satisfaction	15%	Exceeded 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 customer advocacy based on feedback. IAG has worked to introduce a consistent customer advocacy measure across the Group and establish a baseline for future year comparisons. In the year ended 30 June 2015, customer advocacy scores improved in the Australian Personal Insurance and Commercial Insurance divisions. Customer advocacy was stable in New Zealand and Asia based on the collected baseline information. IAG recognises the importance of stakeholder reputation and actively seeks feedback through perception audits, regulator dialogue and external agency ratings. These have demonstrated improvements in key areas.
	Strategy development and execution	20%	Met target: In the year ended 30 June 2015, IAG focused on the realisation of synergy benefits and cultural integration of the Australian and New Zealand former Wesfarmers business, including the Lumley and WFI brands, as well as the transformation of the Australian operating model. IAG also set ambitious strategic priorities to deliver great customer experiences, creating shared value for all of our stakeholders.
	Build capability and agility for future value	5%	Met target: IAG focused on a number of strategic initiatives that will help deliver a platform for future growth. IAG implemented a Human Centred Design (HCD) approach to problem solving, dedicated resources to drive IAG's digital strategy and pioneered venturing initiatives.

Culture and employee development	10%	Exceeded target: IAG focused on aligning the culture of the Group and the Group people strategies in light of the recent acquisition and change in operating model. The Group culture results were positive and continue to outperform those of the financial services sector. IAG proudly embraces an inclusive and diverse workplace. Women hold 31.5% of senior management roles across the Group, and 33.3% in the Australian and New Zealand businesses. Although this is short of the goal set in 2010 of 33% of senior management roles being held by women across the Group, IAG has improved significantly from 27% reported in 2010. IAG continues to improve this, including by introducing training to reduce unconscious bias in recruitment.

II. STI outcomes for the year ended 30 June 2015

Cash and deferred STI payments made to the Group CEO and the Executive team for the year ended 30 June 2015 are set out below, and were based on achievement against the balanced scorecard measures described in table 5.

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, less than those for last year.

TABLE 6 - ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2015

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (2/3 OF OUTCOME)	DEFERRED STI OUTCOME (1/3 OF OUTCOME)
	(% of fixed pay)[a]	(% of maximum)[a]	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
Michael Wilkins	150 %	62 %	93 %	62 %	31 %
Ben Bessell	120 %	51 %	61 %	41 %	20 %
Duncan Brain	120 %	64 %	76 %	51 %	25 %
Andy Cornish	120 %	71 %	86 %	57 %	29 %
Peter Harmer	120 %	58 %	70 %	47 %	23 %
Alex Harrison[b]	120 %	60 %	72 %	72 %	- %
Nicholas Hawkins	120 %	74 %	89 %	59 %	30 %
Jacki Johnson	120 %	48 %	57 %	38 %	19 %
Leona Murphy	120 %	69 %	83 %	55 %	28 %
Clayton Whipp	120 %	55 %	66 %	44 %	22 %

(a) The proportion of STI forfeited is derived by subtracting the actual % of maximum received from the maximum STI opportunity and was 39% on average for the year ended 30 June 2015 (compared to 21% in 2014).

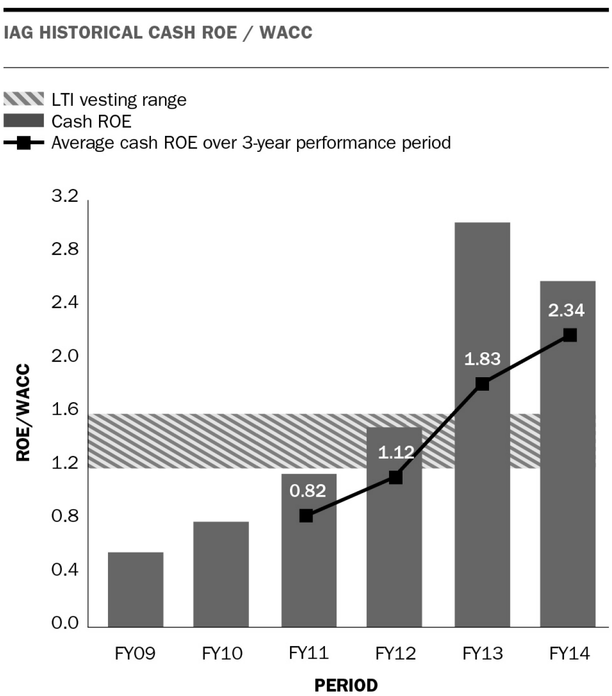
(b) Alex Harrison's STI will be settled entirely in cash due to his departure from IAG on 31 August 2015.

III. 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 2015 was based against IAG's performance against the ROE hurdle at 30 June 2014, and relative TSR measured at 30 September 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 2014 was 2.34 times IAG's WACC. This was a strong result compared to historical returns and resulted in full vesting of the ROE portion of the 2011/2012 Series 4 EPR. This is only the second time the ROE portion of the LTI has vested and this strong cash ROE performance has similarly been reflected in the solid 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's TSR was in the top quartile of its peer group, ranking at the 95th percentile over the three years up to 30 September 2014.

While delivering value to shareholders this outcome also resulted in full vesting of the LTI plan for Executives.

The following table shows the returns IAG delivered to its shareholders for the last five financial years for a range of additional measures.

TABLE 7 - HISTORICAL ANALYSIS OF SHAREHOLDER RETURN ON LTI

	YEAR ENDED 30 JUNE 2011	YEAR ENDED 30 JUNE 2012	YEAR ENDED 30 JUNE 2013	YEAR ENDED 30 JUNE 2014	**YEAR ENDED 30 JUNE 2015**
Closing share price ($)	3.40	3.48	5.44	5.84	**5.58**
Dividend paid per ordinary share (cents)	16.00	17.00	36.00	39.00	**29.00**
Basic earnings per share (cents)	12.08	10.01	37.57	56.09	**31.22**
Cash ROE (%)	11.1	13.3	25.3	23.0	**15.3**
ROE to WACC outcome for EPR Plan	0.82	1.12	1.83	2.34	**2.47**
TSR (%)*	3.0	5.3	59.2	15.6	**1.8**

* 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.

IV. LTI awards outstanding during the year ended 30 June 2015

Details of outstanding LTI awards made to Executives in the year ended 30 June 2015 are shown in table 8 below:

TABLE 8 - LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2015

AWARD	GRANT DATE	BASE DATE	FIRST TEST DATE	LAST TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2014/2015 Series 6 - TSR[a]	03/11/2014	30/09/2014	30/09/2018		N/A	03/11/2021
2014/2015 Series 6 - ROE[a]	03/11/2014	30/06/2014	30/06/2017		N/A	03/11/2021
2013/2014 Series 6 - TSR[a]	01/11/2013	30/09/2013	30/09/2017		N/A	01/11/2020
2013/2014 Series 6 - ROE[a]	01/11/2013	30/06/2013	30/06/2016		N/A	01/11/2020
2012/2013 Series 5 - TSR[b]	26/10/2012	30/09/2012	30/09/2015	30/09/2017	N/A	26/10/2019
2012/2013 Series 5 - ROE[b][c]	26/10/2012	30/06/2012	30/06/2015		N/A	26/10/2019
2011/2012 Series 5 - TSR[b]	21/10/2011	30/09/2011	30/09/2014	30/09/2016	100%	21/10/2018
2011/2012 Series 5 - ROE[b]	21/10/2011	30/06/2011	30/06/2014		100%	21/10/2018

(a) Terms and conditions for EPR Plan 2013/2014 and 2014/2015 are the same, therefore they are both referred to as Series 6.

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

(c) The cash ROE portion of EPR Plan 2012/2013 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 2016.

V. LTI awards vested during the year ended 30 June 2015

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

For EPR Plan 2011/2012 – Series 5, the performance results were:

- TSR met the performance hurdle on 30 September 2014 and 100% of those rights vested upon the first test; and
- the ROE performance hurdle was tested on 30 June 2014 and 100% of those rights vested.

F. EXECUTIVE REMUNERATION OUTCOMES 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 9 - STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	SUB-TOTAL	SHARE BASED PAYMENT		TOTAL	AT-RISK REMUNERATION PORTION PAID
	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		
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
EXECUTIVES										
Michael Wilkins										
2015	**2,093**	**1,314**	**188**	**19**	**44**	**3,658**	**898**	**2,525**	**7,081**	**67**
2014	2,059	1,796	209	18	44	4,126	844	2,504	7,474	69
Ben Bessell										
2015	**116**	**65**	**(10)**	**7**	**3**	**181**	**-**	**-**	**181**	**36**
Duncan Brain(11)										
2015	**886**	**469**	**243**	**35**	**20**	**1,653**	**167**	**534**	**2,354**	**50**
2014	660	347	282	19	96	1,404	148	326	1,878	44
Andy Cornish(12)										
2015	**1,017**	**602**	**73**	**35**	**20**	**1,747**	**307**	**1,048**	**3,102**	**63**
2014	854	487	(71)	25	17	1,312	334	1,018	2,664	69
Peter Harmer										
2015	**977**	**473**	**(37)**	**35**	**14**	**1,462**	**341**	**1,032**	**2,835**	**65**
2014	970	704	(35)	25	9	1,673	287	986	2,946	67
Alex Harrison(11)										
2015	**819**	**611**	**29**	**30**	**22**	**1,511**	**144**	**308**	**1,963**	**54**
2014	212	125	(3)	6	2	342	-	-	342	37
Nicholas Hawkins										
2015	**982**	**603**	**68**	**30**	**(12)**	**1,671**	**353**	**1,007**	**3,031**	**65**
2014	970	731	23	25	(34)	1,715	320	976	3,011	67
Jacki Johnson(13)										
2015	**1,096**	**418**	**(50)**	**-**	**7**	**1,471**	**287**	**940**	**2,698**	**61**
2014	1,048	565	6	-	31	1,650	271	889	2,810	61
Leona Murphy										
2015	**880**	**505**	**20**	**30**	**18**	**1,453**	**298**	**907**	**2,658**	**64**
2014	870	569	(5)	25	18	1,477	283	880	2,640	66
Clayton Whipp										
2015	**720**	**341**	**29**	**35**	**35**	**1,160**	**138**	**208**	**1,506**	**46**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL										
Justin Breheny										
2015	**678**	**546**	**177**	**24**	**28**	**1,453**	**307**	**927**	**2,687**	**66**
2014	890	579	173	25	20	1,687	309	903	2,899	62

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:

2015:

- Duncan Brain: $269,929 for accommodation allowances, airfares for home visits and other benefits. This amount is partially offset by a negative annual leave accrual; and
- Justin Breheny: $126,099 for accommodation allowances and the interest that would have accrued on the interest free loan and the applicable FBT (for further details, see Section J Related party interests).

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, airfares for home visits and the value of interest that would have accrued on the interest free loan (for further details, see Section J Related party interests); and
- Jacki Johnson: $18,325 (NZ$20,252) for accommodation allowances and other benefits.

(4) Superannuation represents the employer's contributions.

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

(6) The sum of columns (1) to (5). 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 2015 (2014-nil).

(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 2014 is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2015 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 (6) to (8).

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

(11) Remuneration for Duncan Brain and Alex Harrison has increased as for the first time both executives were KMP for the full period in the year ended 30 June 2015. In the 2014 financial year, no share based payments were disclosed for Alex Harrison as those payments were not related to his role as KMP.

(12) Remuneration received by Andy Cornish is higher in the year ended 30 June 2015 than the previous financial year as he took a three-month period of unpaid leave in the 2014 financial year.

(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 2015 was NZD1 = AUD0.93060 (2014 - NZD1 = AUD0.90485).

II. Movement in equity plans within the financial year

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 2015. Refer to the share based remuneration note of the Financial Statements for further DAR Plan details.

TABLE 10 - MOVEMENT IN POTENTIAL VALUE OF DAR FOR THE YEAR ENDED 30 JUNE 2015

		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
2015								
EXECUTIVES								
Michael Wilkins	Number	266,850	153,800	(189,700)	-	230,950	189,700	-
	$000		**927**	**1,154**	**-**			
Duncan Brain	Number	44,600	35,500	(32,400)	-	47,700	32,400	-
	$000		**214**	**197**	**-**			
Andy Cornish	Number	101,250	41,700	(72,200)	-	70,750	72,200	-
	$000		**251**	**439**	**-**			
Peter Harmer	Number	96,800	60,300	(66,500)	-	90,600	66,500	-
	$000		**363**	**405**	**-**			
Alex Harrison[(c)]	Number	41,800	25,300	(29,500)	-	37,600	29,500	-
	$000		**153**	**179**	**-**			
Nicholas Hawkins	Number	101,750	62,700	(71,300)	-	93,150	71,300	-
	$000		**378**	**434**	**-**			
Jacki Johnson	Number	147,300	48,400	(122,400)	-	73,300	61,250	-
	$000		**292**	**745**	**-**			
Leona Murphy	Number	89,700	48,800	(63,250)	-	75,250	63,250	-
	$000		**294**	**385**	**-**			
Clayton Whipp[(c)]	Number	43,200	23,900	(32,450)	-	34,650	32,450	-
	$000		**144**	**197**	**-**			
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Justin Breheny	Number	95,300	49,600	(68,750)	-	76,150	68,750	-
	$000		**299**	**418**	**-**			

(a) DAR that were granted on 3 November 2014, have a first exercisable date of 1 September 2015 and an expiry date of 3 November 2021. 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 $6.03. 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 2015 to 30 June 2017).

(b) DAR that vested on 1 September 2014 or before and were exercised in the financial year. The value of DAR exercised is based on the weighted average share price which was $6.08 for the year ended 30 June 2015.

(c) Opening number of DAR on issue represents the balance as at the date of appointment of 1 July 2014.

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 2015 were in relation to the LTI plan. Refer to the share based remuneration note of the Financial Statements for further EPR Plan details.

TABLE 11 - MOVEMENT IN POTENTIAL VALUE OF EPR FOR THE YEAR ENDED 30 JUNE 2015

		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 EXERCISABLE 30 JUNE	EPR FORFEITED AND WILL LAPSE IN FUTURE YEARS
2015									
EXECUTIVES									
Michael Wilkins	Number	2,739,000	544,300	(885,500)	(395,300)	2,002,500	885,500	-	-
	$000		**2,339**	**5,388**	**2,444**				**-**
Duncan Brain	Number	376,050	197,800	(68,900)	(30,750)	474,200	68,900	-	-
	$000		**850**	**419**	**190**				**-**
Andy Cornish	Number	1,128,950	226,000	(367,700)	(155,850)	831,400	367,700	-	-
	$000		**971**	**2,237**	**964**				**-**
Peter Harmer	Number	927,500	217,300	(345,600)	-	799,200	345,600	-	-
	$000		**934**	**2,103**	**-**				**-**
Alex Harrison(d)	Number	172,000	182,000	(63,700)	-	290,300	63,700	-	-
	$000		**782**	**388**	**-**				**-**
Nicholas Hawkins	Number	1,086,300	217,300	(353,000)	(151,400)	799,200	353,000	-	-
	$000		**934**	**2,148**	**936**				**-**
Jacki Johnson	Number	1,212,883	227,100	(536,333)	(146,950)	756,700	312,900	-	-
	$000		**976**	**3,263**	**909**				**-**
Leona Murphy	Number	966,650	195,600	(318,100)	(124,650)	719,500	318,100	-	-
	$000		**841**	**1,935**	**771**				**-**
Clayton Whipp(d)	Number	183,300	77,100	(58,900)	(22,600)	178,900	58,900	-	-
	$000		**331**	**358**	**140**				**-**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL									
Justin Breheny	Number	1,007,250	199,900	(325,000)	(146,950)	735,200	325,000	-	-
	$000		**859**	**1,977**	**909**				**-**

(a) All EPR were granted on 3 November 2014 and have an expiry date of 3 November 2021. EPR granted during the year and subject to the TSR performance hurdle have a grant date value of $3.02, 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 2018. EPR granted during the year and subject to the ROE performance hurdle have a grant date value of $5.58, calculated using the Black-Scholes valuation model. All rights granted during the year, and subject to the ROE performance hurdle, are first exercisable after the performance period concludes on 30 June 2017. 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 ending 30 June 2015 to 30 June 2019).

(b) EPR that vested on 30 September 2014 or before and were exercised in the financial year. The value of EPR exercised is based on the weighted average share price which was $6.08 for the year ended 30 June 2015.

(c) The value of EPR lapsed during the year ended 30 June 2015 is based on the five day weighted average share price which was $6.18 to 30 September 2014.

(d) Opening number of EPR on issue represents the balance as at the date of appointment of 1 July 2014.

G. 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 RELEVANT 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
Andy Cornish	12 months	3 months	12 months fixed remuneration
Peter Harmer	12 months	6 months	12 months base salary
Alex Harrison	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
Clayton Whipp	12 months	6 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 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.

H. 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 2015

On 14 August 2014, the Board approved a 3% increase in the Board and Committee fees effective from 1 July 2014. The aggregate limit of Board fees approved by shareholders at the annual general meeting in October 2013 remains unchanged at $3,500,000 per annum.

The figures shown below are inclusive of superannuation. Directors can elect the portion of fees contributed into their nominated superannuation fund, provided minimum legislated contribution levels are met.

TABLE 13 - BOARD AND COMMITTEE FEES

		ANNUAL FEE	
BOARD/COMMITTEE	ROLE	**2015**	2014
Board	Chairman	**$565,800**	$549,300
	Non-Executive Director	**$188,600**	$183,100
Audit Committee	Chairman	**$40,900**	$39,700
	Member	**$20,450**	$19,850
Risk Committee	Chairman	**$40,900**	$39,700
	Member	**$20,450**	$19,850
People and Remuneration Committee	Chairman	**$40,900**	$39,700
	Member	**$20,450**	$19,850
Nominations Committee*	Chairman	**N/A**	N/A
	Member	**$10,000**	N/A

* IAG established a Nominations Committee on 1 July 2014. No fees are payable to the Chairman.

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	$247,000
Hugh Fletcher*	IAG New Zealand Limited	Chairman	$139,590

* 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 was conducted in the 2014 financial year. 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 2015 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								
2015	**568**	**226**	**19**	**-**	**-**	**-**	**-**	**813**
2014	552	220	18	-	-	-	-	790
Elizabeth Bryan								
2015	**99**	**6**	**10**	**-**	**-**	**-**	**-**	**115**
Yasmin Allen								
2015	**178**	**84**	**19**	**-**	**-**	**-**	**-**	**281**
2014	172	68	18	-	-	-	-	258
Alison Deans								
2015	**173**	**37**	**19**	**-**	**-**	**-**	**-**	**229**
2014	168	31	18	-	-	-	-	217
Hugh Fletcher								
2015	**172**	**177**	**20**	**-**	**-**	**-**	**-**	**369**
2014	168	167	18	-	-	-	-	353
Raymond Lim								
2015	**172**	**19**	**18**	**-**	**-**	**-**	**-**	**209**
2014	168	18	17	-	-	-	-	203
Tom Pockett								
2015	**86**	**-**	**8**	**-**	**-**	**-**	**-**	**94**
Philip Twyman								
2015	**177**	**80**	**19**	**-**	**-**	**-**	**-**	**276**
2014	170	56	18	-	-	-	-	244
NON-EXECUTIVE DIRECTORS WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Peter Bush								
2015	**115**	**12**	**12**	**-**	**-**	**-**	**-**	**139**
2014	168	18	17	-	-	-	-	203
Dr Nora Scheinkestel								
2015	**37**	**12**	**5**	**-**	**-**	**-**	**-**	**54**
2014	169	21	16	-	-	-	-	206

I. 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.

J. RELATED PARTY INTERESTS

In accordance with the Corporations Act Regulation 2M.3.03, the Remuneration Report includes 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 IAG ordinary shares are disclosed in the table below:

TABLE 16 - MOVEMENT 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	SHARES HELD NOMINALLY AT 30 JUNE[b]
	Number	Number	Number	Number	Number	Number
2015						
Brian Schwartz	**107,751**	**-**	**-**	**3,420**	**111,171**	**108,718**
Elizabeth Bryan[c]	**-**	**-**	**-**	**31,409**	**31,409**	**31,409**
Yasmin Allen	**41,753**	**-**	**-**	**-**	**41,753**	**40,087**
Alison Deans	**37,742**	**-**	**-**	**-**	**37,742**	**37,742**
Hugh Fletcher	**78,776**	**-**	**-**	**1,931**	**80,707**	**44,146**
Raymond Lim	**30,000**	**-**	**-**	**-**	**30,000**	**30,000**
Tom Pockett[c]	**32,017**	**-**	**-**	**79**	**32,096**	**-**
Phillip Twyman	**48,022**	**-**	**-**	**(16,750)**	**31,272**	**28,530**
Michael Wilkins	**2,048,030**	**885,500**	**189,700**	**(1,075,200)**	**2,048,030**	**1,207,840**
Ben Bessell[c]	**277**	**-**	**-**	**-**	**277**	**277**
Duncan Brain	**51,687**	**68,900**	**32,400**	**-**	**152,987**	**4,000**
Andy Cornish	**347,031**	**367,700**	**72,200**	**(583,850)**	**203,081**	**-**
Peter Harmer	**362,300**	**345,600**	**66,500**	**(150,000)**	**624,400**	**172,800**
Alex Harrison[c]	**-**	**63,700**	**29,500**	**(93,200)**	**-**	**-**
Nicholas Hawkins	**227,147**	**353,000**	**71,300**	**(451,447)**	**200,000**	**-**
Jacki Johnson	**640,760**	**536,333**	**122,400**	**-**	**1,299,493**	**225,933**
Leona Murphy	**293,402**	**318,100**	**63,250**	**(334,092)**	**340,660**	**114,545**
Clayton Whipp[c]	**91,303**	**58,900**	**32,450**	**(150,272)**	**32,381**	**1,191**
NON-EXECUTIVE DIRECTORS AND EXECUTIVE WHO CEASED AS KEY MANAGEMENT PERSONNEL						
Peter Bush	**31,500**	**-**	**-**	**(31,500)**	*****	*****
Dr Nora Scheinkestel	**32,826**	**-**	**-**	**(32,826)**	*****	*****
Justin Breheny	**240,277**	**325,000**	**68,750**	**(430,000)**	*****	*****
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
Phillip 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[c]	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

* These Non-Executive Directors or Executive ceased as KMP during the financial year. Information on shares held is disclosed up to the date of their cessation.

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

(b) 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.

(c) Opening number of shares held represents the balance as at the date of appointment.

II. Movements in total number of convertible preference shares
Philip Twyman acquired 1,100 (2014-957) convertible preference shares during the year, holding a total of 4,115 shares as at 30 June 2015. Justin Breheny held 16 (2014-16) convertible preference shares at the beginning of the financial year and up to the date of cessation as a KMP. No other key management personnel had any interest directly or nominally in convertible preference shares at any time during the financial year (2014-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 (2014-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. One repayment of $146,632 was made in the prior financial year. The remaining balance of the loan at 1 July 2014 was $633,040, and this was also the highest outstanding balance during the reporting period. The loan was an interest free loan and would have accrued an interest charge of $35,742 during the year ended 30 June 2015. On 27 May 2015 the loan was repaid in full.

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	**2,453**	**108,718**
Elizabeth Bryan	**-**	**31,409**
Yasmin Allen	**1,666**	**40,087**
Alison Deans	**-**	**37,742**
Hugh Fletcher	**36,561**	**44,146**
Raymond Lim	**-**	**30,000**
Tom Pockett	**32,096**	**-**
Philip Twyman	**2,742**	**28,530**
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 4,115 (2014-3,015) 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 (2014-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 (2014-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 21st day of August 2015 in accordance with a resolution of the Directors.

Michael Wilkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 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
21 August 2015

FINANCIAL STATEMENTS

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	CONSOLIDATED 2015 $m	2014 $m
Premium revenue	4	**11,525**	9,721
Outwards reinsurance premium expense	5	**(1,196)**	(1,077)
Net premium revenue (i)		**10,329**	8,644
Claims expense	5	**(9,363)**	(7,058)
Reinsurance and other recoveries revenue	4	**2,422**	1,857
Net claims expense (ii)	10	**(6,941)**	(5,201)
Acquisition costs	5	**(1,750)**	(1,386)
Reinsurance commission revenue	4	**52**	51
Net acquisition costs		**(1,698)**	(1,335)
Other underwriting expenses	5	**(924)**	(752)
Fire services levies	5	**(225)**	(216)
Underwriting expenses (iii)		**(2,847)**	(2,303)
Underwriting profit/(loss) (i) + (ii) + (iii)		**541**	1,140
Investment income on assets backing insurance liabilities	4	**585**	459
Investment expenses on assets backing insurance liabilities	5	**(23)**	(20)
Insurance profit/(loss)		**1,103**	1,579
Investment income on shareholders' funds	4	**231**	400
Fee and other income	4	**187**	199
Share of net profit/(loss) of associates	4	**6**	(8)
Finance costs	5	**(107)**	(98)
Fee based, corporate and other expenses	5	**(465)**	(256)
Net income/(loss) attributable to non-controlling interests in unitholders' funds	5	**(6)**	(14)
Profit/(loss) before income tax		**949**	1,802
Income tax (expense)/credit	6	**(119)**	(472)
Profit/(loss) for the year		**830**	1,330
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans		**22**	26
Income tax on items that will not be reclassified to profit or loss		**(7)**	(8)
		15	18
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve		**(80)**	(31)
Income tax on items that may be reclassified to profit or loss		**2**	13
		(78)	(18)
Other comprehensive income and (expense), net of tax		**(63)**	-
Total comprehensive income and (expense) for the year, net of tax		**767**	1,330
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent		**728**	1,233
Non-controlling interests		**102**	97
Profit/(loss) for the year		**830**	1,330
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent		**665**	1,233
Non-controlling interests		**102**	97
Total comprehensive income and (expense) for the year, net of tax		**767**	1,330

	NOTE	2015 cents	2014 cents
EARNINGS PER SHARE			
Basic earnings per ordinary share	8	**31.22**	56.09
Diluted earnings per ordinary share	8	**30.45**	53.62

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

BALANCE SHEET

AS AT 30 JUNE 2015

	NOTE	CONSOLIDATED 2015 $m	2014 $m
ASSETS			
Cash held for operational purposes	22	**306**	447
Investments	14	**15,535**	15,377
Premium receivable	15	**3,251**	3,316
Trade and other receivables	15	**653**	628
Reinsurance and other recoveries on outstanding claims	11	**3,713**	3,248
Deferred levies and charges		**116**	119
Deferred outwards reinsurance expense	12	**1,823**	706
Deferred acquisition costs	12	**1,015**	1,028
Deferred tax assets	6	**499**	324
Property and equipment		**235**	249
Other assets		**134**	135
Investment in joint venture and associates	26	**561**	572
Intangible assets	16	**671**	700
Goodwill	17	**2,890**	2,899
Total assets		**31,402**	29,748
LIABILITIES			
Trade and other payables	18	**1,321**	1,514
Reinsurance premium payable		**1,440**	556
Restructuring provision	19	**59**	50
Current tax liabilities		**109**	203
Unearned premium liability	13	**6,156**	6,256
Outstanding claims liability	10	**12,687**	12,006
Non-controlling interests in unitholders' funds		**198**	190
Employee benefits provision	27	**324**	337
Other liabilities		**328**	90
Interest bearing liabilities	20	**1,762**	1,752
Total liabilities		**24,384**	22,954
Net assets		**7,018**	6,794
EQUITY			
Share capital	21	**7,275**	6,775
Treasury shares held in trust		**(83)**	(94)
Reserves		**(38)**	38
Retained earnings		**(337)**	(151)
Parent interest		**6,817**	6,568
Non-controlling interests		**201**	226
Total equity		**7,018**	6,794

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

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
2015							
Balance at the beginning of the financial year	**6,775**	**(94)**	**10**	**28**	**(151)**	**226**	**6,794**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**728**	**102**	**830**
Other comprehensive income and (expense)	**-**	**-**	**(78)**	**-**	**15**	**-**	**(63)**
Total comprehensive income/(expense) for the year	**-**	**-**	**(78)**	**-**	**743**	**102**	**767**
Transactions with owners in their capacity as owners							
Shares issued under placement, net of transaction costs	**500**	**-**	**-**	**-**	**-**	**-**	**500**
Shares acquired and held in trust	**-**	**(35)**	**-**	**-**	**-**	**-**	**(35)**
Share based payment expense recognised	**-**	**-**	**-**	**28**	**-**	**-**	**28**
Share based remuneration vested	**-**	**46**	**-**	**(26)**	**(20)**	**-**	**-**
Non-controlling interests in acquisitions during the year	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(913)**	**(129)**	**(1,042)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**4**	**-**	**4**
Balance at the end of the financial year	**7,275**	**(83)**	**(68)**	**30**	**(337)**	**201**	**7,018**
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

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 2015

	NOTE	CONSOLIDATED 2015 $m	2014 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**11,503**	9,661
Reinsurance and other recoveries received		**1,938**	1,778
Claims costs paid		**(8,736)**	(6,898)
Outwards reinsurance premium expense paid		**(1,427)**	(1,130)
Dividends received		**39**	38
Interest and trust distributions received		**555**	533
Finance costs paid		**(102)**	(95)
Income taxes paid		**(351)**	(432)
Other operating receipts		**884**	736
Other operating payments		**(3,605)**	(3,114)
Net cash flows from operating activities	22	**698**	1,077
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on acquisition of/capital injection to subsidiaries and associates		**(162)**	(312)
Proceeds from disposal of investments and property and equipment		**11,315**	14,543
Outlays for investments and property and equipment		**(12,845)**	(14,526)
Net cash flows from investing activities		**(1,692)**	(295)
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for purchase of treasury shares		**(35)**	(78)
Proceeds from issue of trust units		**126**	163
Outlays for redemption of trust units		**(125)**	(197)
Proceeds from borrowings		**-**	347
Repayment of borrowings		**-**	(283)
Dividends paid to IAG shareholders		**(913)**	(823)
Dividends paid to non-controlling interests		**(129)**	(81)
Proceeds from issue of shares, net of transaction costs		**500**	1,422
Dividends received on treasury shares		**4**	3
Net cash flows from financing activities		**(572)**	473
Net movement in cash held		**(1,566)**	1,255
Effects of exchange rate changes on balances of cash held in foreign currencies		**(11)**	39
Cash and cash equivalents at the beginning of the financial year		**3,010**	1,716
Cash and cash equivalents at the end of the financial year	22	**1,433**	3,010

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 2015 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 21 August 2015.

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.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2018	B
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2012-6	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	1 January 2015	B
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part C	1 January 2018	A
AASB 15	Revenue from contracts with customers	1 January 2018	B
AASB 2014-1	Amendments to Australian Accounting Standards: Part E	1 January 2018	A
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	A
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	A
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 January 2017	B
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2014-8	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2015	B
AASB 2014-9	Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements	1 January 2016	A
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	A
AASB 2015-1	Amendments to Australian Accounting Standards - Annual improvement to Australian Accounting standards 2012-2014 Cycle	1 January 2016	A
AASB 2015-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendment to AASB 101	1 January 2016	A
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 July 2015	A
AASB 2015-4	Amendments to Australian Accounting Standards - Financial Reporting Requirements for Australian Groups with a Foreign Parent	1 July 2015	A
AASB 2015-5	Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception	1 January 2016	A

TABLE NOTE

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

B First time adoption of these standards may have a financial impact, but the potential effects are currently being assessed.

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

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

III. Changes to comparatives

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

- During the year ended 30 June 2015, the acquisition accounting was finalised in respect of the acquisition of the former Wesfarmers business during the prior financial year. The comparative consolidated balance sheet as at 30 June 2014 has been restated to reflect these adjustments, with no overall impact to the Group's net assets. The following balance sheet items have been restated accordingly: goodwill; deferred tax assets; other assets; trade and other payables; employee benefits provision; outstanding claims liability; and the net tangible assets per ordinary share. For further details refer to the acquisitions and disposals of businesses note;
- From 1 July 2014, a new Australian operating model came into effect resulting in changes to the reporting segments of the Australian operations. Prior period segment related information has been re-presented accordingly in the segment and claims notes; and
- Reclassification of $25 million of prior year trade and other payables to other liabilities to conform to current year presentation.

IV. 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 deferred 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. 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. 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.

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 values of investments are 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 prices at the current 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. 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.

R. 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, or as payables when the fair value is negative. 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.

S. 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.

T. 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 the cash generating unit (CGU) it is included within 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.

U. 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.

V. 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 the CGU it is included within 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.

W. 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 CGUs. 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.

X. 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.

Y. 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.

Z. 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 property and equipment and then depreciated over the useful lives of the assets (refer to section T of the summary of significant accounting policies note).

AA. 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 corporate bond yields (2014-risk free interest rates) 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 AG 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.

AB. 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.

AC. 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 rate 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	
	2015	2014	**2015**	2014
New Zealand dollar	**0.87848**	0.92866	**0.93060**	0.90485
British pound	**2.03934**	1.81505	**1.88818**	1.77299
Thai baht	**0.03833**	0.03270	**0.03676**	0.03398
United States dollar	**1.29618**	1.06078	**1.20200**	1.08950
Malaysian ringgit	**0.34331**	0.33036	**0.34745**	0.33574

AD. 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.

AE. 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.

AF. 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.

AG. 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 the summary of significant accounting policies note 1. This estimate is subject to a high degree of uncertainty owing to the unique nature of the events. The uncertainties include allocation of costs between the various earthquake events (September 2010, February 2011 and June 2011) for policies affected by multiple events, under the Earthquake Commission (EQC) cap (NZ$100,000) claims which may subsequently exceed the cap, potential latent claims, outcomes of court cases and litigation, the impact of demand surge inflation, the interaction with the EQC and uncertainty relating to IAG's share of claim costs.

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

- other:
  - intangible assets and goodwill impairment testing, 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; and
  - share based remuneration, refer to note 28.

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 setting risk strategy, the development of IAG's risk management framework, policies and standards and providing advice to the IAG Executives and Board. 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 IAG's written Risk Management Strategy (RMS), which is in accordance with the Australian Prudential Regulation Authority (APRA) prudential standards.

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 roles and 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 to be applied by all controlled entities consistently across the Group and take into consideration local circumstances in non-Australian jurisdictions. These policies are supported by associated Group frameworks and processes and Divisional processes.

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.

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

In addition to the RMS, the Group's risk framework includes the following documents:

- Reinsurance Management Strategy (REMS) - comprises key elements of the reinsurance management framework, processes for setting and monitoring the insurance concentration risk charge (ICRC), processes for selecting, implementing, monitoring and reviewing reinsurance arrangements and identification of 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 (RAS) – the Group RAS, together with the associated metrics, 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 above apply to all controlled entities within the Group. 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 of the IAG website. Refer to www.iag.com.au/about-us/corporate-governance for further details.

IAG's risk model covers all three lines of defence: risk owners, risk advisers and Internal Audit. 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: a 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 of 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; – derivative exposures: movements in underlying 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 reinsurers, premium debtors and those related to investments; 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: ■ Business continuity: unavailability of premises, systems and/or critical processes; ■ Internal fraud: any act or omission, by an internal staff member with or without collusion with an external party, made with dishonest or potentially illegal intent, to obtain a benefit or advantage, for one's self or any other person; ■ External fraud: any act or omission, by a third party, made with dishonest or potentially illegal intent, to obtain a benefit or advantage, for one's self or any other person; ■ Cyber security: risk of loss or detriment to IAG and its customers as a result of actions committed or facilitated through the use of networked information systems; ■ Technology: failure to develop, deploy, maintain and operate, and recover stable and reliable technology services; ■ Compliance: failure or inability to comply with the applicable laws, regulations or codes excluding failure of staff to adhere to internal policies/procedures; ■ People and safety: inadequate capabilities and/or capacity, retention, inappropriate behaviours, and/or workplace safety; ■ Information management: inadequate protection of IAG's information in accordance with its value and sensitivity; ■ Execution and delivery: inadequate processes and/or failure of staff to adhere to policies/procedures; failures relating to project management and change programs; and ■ Supply and distribution chain: delivery failure of service provider/third party; disputes with service provider/third party.

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. IAG has an appointed Chief Underwriting Officer to assist it to provide further oversight and management of insurance risk.

Insurance activities primarily involve the underwriting of risks and the management of claims as well as the product design, product pricing, reserving and concentration risk (refer below). 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, regulators and shareholders.

The level of risk accepted by IAG is formally documented in its Insurance Business Licences. Each operating division has an insurance licence, or licences. 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 licensed 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 to be 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 Insurance Concentration Risk Charge (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 classes of business. The table below provides an analysis of gross written premium by region:

	CONSOLIDATED	
	2015	2014
	%	%
Australia	**77**	78
New Zealand	**20**	19
Asia	**3**	3
	100	100

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

	CONSOLIDATED	
	2015	2014
	%	%
Motor	**30**	32
Home	**26**	27
Short-tail commercial	**24**	19
CTP (motor liability)	**8**	9
Liability	**6**	5
Other short-tail	**3**	4
Workers' compensation	**3**	4
	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 controlled 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 whole of portfolio basis but is authorised to elect to purchase covers up to a 1:250 year event. 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 and 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;
- 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, Vietnam and Indonesia;
- excess of loss reinsurance for all casualty portfolios including CTP, public liability, workers' compensation and home owners warranty products;
- excess of loss reinsurance for all marine portfolios;
- adverse development cover and quota share protection on the CTP portfolio;
- excess of loss reinsurance cover for retained natural peril losses; and
- a 20% whole-of-account quota share arrangement, commencing 1 July 2015 for losses occurring after that date.

b. CHANGES DURING THE YEAR

The limit of catastrophe cover purchased was increased to $7.0 billion. Should a loss event occur that is greater than $7.0 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 2015, the Group ICRC from a catastrophe event was $200 million.

The Group has entered into a ten-year, 20% whole-of-account quota share arrangement, commencing 1 July 2015 for losses occurring after that date. The application of the quota share results in all of IAG's net retentions being reduced by 20% with effect from 1 July 2015.

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;
- having Board Risk Management and Audit Committees with Non-Executive Directors as members. These committees support the Board in the discharge of its responsibilities;
- 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, Group Liquidity Policy and Group Foreign Exchange Policy which are reviewed regularly;
- maintenance of Board approved Strategic Asset Allocation and existence of Investment Management Agreements;
- 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. Refer to the Risk Management Overview section above.

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; and
- 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, Thai baht and Indonesian rupiah.

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	
	2015	2014
	$m	$m
	Impact to profit	Impact to profit
Shareholders' funds including related derivatives		
United States dollar	**1**	2
	1	2

	CONSOLIDATED	
	2015	2014
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**87**	74
Malaysian ringgit	**15**	16
Other currencies where considered significant	**15**	15
	117	105

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 and 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 or loss 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	
		2015	2014
		$m	$m
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(366)**	(328)
	-1%	**389**	351

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	
		2015	2014
		$m	$m
Investments – equity and trust securities and related equity derivatives	+10%	**115**	138
	-10%	**(115)**	(138)

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's credit risk appetite is approved by the Board and the Group has a Credit Risk Policy which is consistent with the Board's risk appetite and also 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. 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 Australian banks, also to securitised assets in Australia and to reinsurers in relation to the reinsurance recoverables. Credit exposures are, however, 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.

	NOT OVERDUE		OVERDUE		CONSOLIDATED TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
2015					
Premium receivable	**2,773**	**233**	**244**	**40**	**3,290**
Provision for impairment - specific	**-**	**(2)**	**(5)**	**(21)**	**(28)**
Provision for impairment - collective	**(5)**	**(1)**	**(1)**	**(4)**	**(11)**
Net balance	**2,768**	**230**	**238**	**15**	**3,251**
Reinsurance recoveries on paid claims	**176**	**87**	**10**	**27**	**300**
Net balance	**176**	**87**	**10**	**27**	**300**
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

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 other than a mandatory placement to meet local regulatory requirements. 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 has more than 89% of the limit for the 2015 program (2014-89%) with parties rated by Standard & Poor's as A+ or better. For long-tail reinsurance arrangements 98% (2014-100%) 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	
	2015	2014
	$m	$m
AAA	**1**	1
AA	**1,501**	1,159
A	**905**	901
BBB and below	**19**	12
Total	**2,426**	2,073

Of these, approximately $720 million (2014-$862 million) is secured directly as follows, which reduces the credit risk:

- deposits held in trust: $321 million (2014-$354 million);
- letters of credit: $388 million (2014-$460 million); and
- loss deposits: $11 million (2014-$48 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	
	2015	2014
	$m	$m
AAA	**5,821**	5,153
AA	**5,602**	6,727
A	**1,274**	1,001
BBB and below	**1,428**	903
Total	**14,125**	13,784

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 a Group policy, and has the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity. IAG also has an option to raise further share capital as part of the strategic relationship with Berkshire Hathaway Specialty Insurance Company, which provides IAG access to additional liquidity. See the notes to the statement of changes in equity for further details.

Underwriting insurance contracts exposes 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 interest rate sensitivity created by the maturity profile of the expected pattern of the 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 tool used in the investment of assets backing insurance liabilities in accordance with the policy of broadly matching the overall interest rate sensitivity of the assets with the overall interest rate sensitivity created by the maturity profile of the estimated pattern of claims payments.

				CONSOLIDATED
MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2015	2014	**2015**	2014
	$m	$m	**$m**	$m
Floating interest rate (at call)	**-**	-	**1,002**	948
Within 1 year or less	**3,836**	3,400	**3,058**	4,042
Within 1 to 2 years	**1,549**	1,611	**1,192**	581
Within 2 to 3 years	**946**	1,039	**2,804**	1,340
Within 3 to 4 years	**641**	678	**1,542**	3,509
Within 4 to 5 years	**433**	441	**1,674**	1,424
Over 5 years	**1,569**	1,589	**2,853**	1,940
Total	**8,974**	8,758	**14,125**	13,784

Timing of future claim payments is inherently uncertain. The table above presents 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.

							CONSOLIDATED
	CARRYING VALUE	MATURITY DATES OF CONTRACTUAL UNDISCOUNTED CASH FLOWS					
		Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Perpetual	Total
	$m	$m	$m	$m	$m	$m	$m
2015							
Tier 1 regulatory capital[(a)]	**927**	**-**	**-**	**-**	**-**	**927**	**927**
Tier 2 regulatory capital[(a)]	**841**	**-**	**-**	**-**	**841**	**-**	**841**
Contractual undiscounted interest payments[(b)]		**90**	**86**	**227**	**-**	**-**	**403**
Total contractual undiscounted payments		**90**	**86**	**227**	**841**	**927**	**2,171**
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

(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.

CAPITAL MANAGEMENT RISK
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 Operational Risk Management Framework, inclusive of the Group Operational Risk Policy, operates within IAG's Enterprise Risk Framework. IAG's Operational Risk Management Framework articulates IAG's key Operational Risk Management elements under its Risk Framework and the operational risk management requirements of the Group. It aims to ensure that consistent governance mechanisms are in-place and that activities undertaken which involve Operational Risk are assessed and managed with appropriate regard to the Group's Risk Appetite Statement and 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.

The Board has ultimate responsibility for risk management, including operational risk. The Board is responsible for oversight of the Operational Risk Framework and approval of the Operational Risk Management Policy, and any changes to it.

As outlined in IAG's RMS and in the Group Operational Risk Framework, Group Policy and the supporting Operational Risk Procedures, operational risk is to be identified and assessed on an ongoing basis. The Internal Capital Adequacy Assessment Process (ICAAP) 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 potential impacts 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 (2014-full conformance).

NOTE 4. ANALYSIS OF INCOME

	CONSOLIDATED	
	2015	2014
	$m	$m
A. GENERAL INSURANCE REVENUE		
Gross written premium	**11,440**	9,779
Movement in unearned premium liability	**85**	(58)
Premium revenue	**11,525**	9,721
Reinsurance and other recoveries revenue	**2,422**	1,857
Reinsurance commission revenue	**52**	51
Total general insurance revenue	**13,999**	11,629
B. INVESTMENT INCOME		
Dividend revenue	**39**	38
Interest revenue	**517**	511
Trust revenue	**19**	16
Total investment revenue	**575**	565
Net change in fair value of investments		
Realised net gains and (losses)	**227**	(2)
Unrealised net gains and (losses)	**14**	296
Total investment income	**816**	859
Represented by		
Investment income on assets backing insurance liabilities	**585**	459
Investment income on shareholders' funds	**231**	400
	816	859
C. FEE AND OTHER INCOME		
Fee based revenue	**132**	125
Other income	**55**	74
Total fee and other income	**187**	199
D. SHARE OF NET PROFIT/(LOSS) OF ASSOCIATES	**6**	(8)
Total income	**15,008**	12,679

NOTE 5. ANALYSIS OF EXPENSES

	CONSOLIDATED 2015 $m	2014 $m
A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME		
Outwards reinsurance premium expense	**1,196**	1,077
Claims expense	**9,363**	7,058
Acquisition costs	**1,750**	1,386
Other underwriting expenses	**924**	752
Fire services levies	**225**	216
Investment expenses on assets backing insurance liabilities	**23**	20
Finance costs	**107**	98
Net loss attributable to non-controlling interests in unitholders' funds	**6**	14
Fee based, corporate and other expenses	**465**	256
Total expenses	**14,059**	10,877
B. ANALYSIS OF EXPENSES BY FUNCTION		
General insurance business expenses	**13,481**	10,509
Fee based business expenses	**113**	113
Investment and other expenses	**12**	21
Corporate and administration expenses	**453**	234
Total expenses	**14,059**	10,877

C. OTHER ITEMS

Disclosure of the following items is considered relevant in explaining the results for the financial year:

	2015 $m	2014 $m
I. Depreciation and amortisation		
Acquired intangible assets	**80**	11
Capitalised software development expenditure	**59**	38
Property and equipment	**67**	62
	206	111
II. Employee benefits		
Defined contribution superannuation plans	**116**	99
Defined benefit superannuation plans	**10**	12
Share based remuneration	**28**	25
Salaries and other employee benefits expense	**1,605**	1,313
	1,759	1,449
III. Other		
Restructuring provision and integration costs	**155**	50
Impairment in investment in associate	**60**	-
	215	50
IV. Finance costs		
Subordinated term notes interest paid/payable	**30**	26
Convertible preference share distributions paid/payable	**18**	18
Reset exchangeable securities interest paid/payable	**25**	26
Subordinated bonds interest paid/payable	**23**	22
Other debts of an operational nature, interest paid/payable	**7**	1
Amortisation of capitalised transaction costs	**4**	5
	107	98

NOTE 6. INCOME TAX

	CONSOLIDATED	
	2015	2014
	$m	$m
A. INCOME TAX EXPENSE		
Current tax	**332**	427
Deferred tax	**(240)**	51
(Over)/under provided in prior year	**27**	(6)
Income tax expense/(credit)	**119**	472
Deferred income tax expense/(credit) included in income tax comprises		
(Increase)/decrease in deferred tax assets	**(191)**	(20)
Increase/(decrease) in deferred tax liabilities	**(49)**	71
	(240)	51

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:

	2015 $m	2014 $m
Profit for the year before income tax	**949**	1,802
Income tax calculated at 30% (2014-30%)	**285**	541
Amounts which are not deductible/(taxable) in calculating taxable income		
Difference in tax rate	**(205)**	(80)
Rebateable dividends	**(9)**	(6)
Amortisation and impairment charge on acquired intangible assets and goodwill	**3**	2
Interest on convertible preference shares and reset preference shares	**5**	5
Other	**13**	16
Income tax expense/(credit) applicable to current year	**92**	478
Adjustment relating to prior year	**27**	(6)
Income tax (credit)/expense attributable to profit/(loss) for the year after impact of tax consolidation	**119**	472

C. DEFERRED TAX ASSETS

I. Composition

	2015 $m	2014 $m
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	**75**	66
Employee benefits	**91**	87
Insurance provisions	**122**	159
Investments	**30**	17
Tax losses	**444**	278
Other	**11**	23
	773	630
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	**9**	16
Other	**-**	6
	782	652
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	**(283)**	(328)
	499	324

II. Reconciliation of movements

	2015 $m	2014 $m
Balance at the beginning of the financial year	**652**	561
Credited/(charged) to profit or loss	**191**	20
Credited/(charged) to equity	**(13)**	(2)
Additions through business acquisition	**-**	60
Transfers	**-**	2
Adjustments relating to prior year	**(23)**	-
Foreign exchange differences	**(25)**	11
Balance at the end of the financial year prior to set-off	**782**	652

III. Tax losses

The Consolidated entity has an unrecognised deferred tax asset of $11 million (2014-$14 million) in relation to discontinued operation tax losses.

	CONSOLIDATED	
	2015	2014
	$m	$m
D. DEFERRED TAX LIABILITIES		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	**35**	108
Intangible assets	**56**	78
Other	**165**	130
	256	316
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	**27**	12
	283	328
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	**(283)**	(328)
	-	-
II. Reconciliation of movements		
Balance at the beginning of the financial year	**328**	160
Charged/(credited) to profit or loss	**(49)**	71
Charged/(credited) to equity	**15**	(8)
Additions through business acquisition	**-**	108
Transfers	**-**	2
Adjustments relating to prior year	**(12)**	(4)
Foreign exchange differences	**1**	(1)
Balance at the end of the financial year prior to set-off	**283**	328

NOTE 7. SEGMENT REPORTING

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

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

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

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

The reportable segments comprise the following business divisions:

A. AUSTRALIA PERSONAL INSURANCE

This segment provides general insurance products to individuals throughout Australia primarily under the NRMA Insurance, SGIO, SGIC and CGU brands, in Victoria under the RACV brand (via a distribution and underwriting relationship with RACV) and the Coles Insurance brand nationally (via a distribution agreement with Coles).

B. AUSTRALIA COMMERCIAL INSURANCE

This segment provides commercial insurance to business customers throughout Australia, predominantly under the CGU, WFI, and Swann Insurance brands through intermediaries including brokers, authorised representatives and distribution partners.

C. NEW ZEALAND

This segment provides general insurance business underwritten through subsidiaries in New Zealand. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI and Lumley Insurance brands. Personal and commercial products are also distributed by corporate partners, such as large financial institutions, using third party brands.

D. ASIA

This segment provides direct and intermediated insurance business underwritten through subsidiaries in Thailand, Vietnam and Indonesia 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.

E. CORPORATE AND OTHER
This segment comprises other activities, including corporate services, capital management activity, placement of the Group's reinsurance program, inward reinsurance from associates and investment of the shareholders' funds.

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

CONSOLIDATED	AUSTRALIA PERSONAL INSURANCE	AUSTRALIA COMMERCIAL INSURANCE	NEW ZEALAND	ASIA	CORPORATE AND OTHER	TOTAL
	$m	$m	$m	$m	$m	$m
2015						
External revenue	**6,904**	**4,023**	**3,349**	**483**	**249**	**15,008**
Total revenue	**6,904**	**4,023**	**3,349**	**483**	**249**	**15,008**
Underwriting profit/(loss)	**505**	**(110)**	**154**	**(8)**	**-**	**541**
Investment income net of investment fees - technical reserves	**283**	**203**	**62**	**13**	**1**	**562**
Insurance profit/(loss)	**788**	**93**	**216**	**5**	**1**	**1,103**
Investment income net of investment fees - shareholders' funds	**-**	**-**	**-**	**-**	**223**	**223**
Share of net profit/(loss) of associates	**-**	**-**	**-**	**16**	**(10)**	**6**
Finance costs	**-**	**-**	**-**	**-**	**(107)**	**(107)**
Other net operating result	**-**	**16**	**4**	**-**	**(296)**	**(276)**
Profit/(loss) before income tax	**788**	**109**	**220**	**21**	**(189)**	**949**
Income tax expense						**(119)**
Profit/(loss) for the year						**830**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**315**	**315**
Depreciation expense	**38**	**13**	**14**	**2**	**-**	**67**
Amortisation and impairment charges on acquired intangibles and goodwill	**15**	**77**	**38**	**9**	**-**	**139**
Total depreciation and amortisation expense	**53**	**90**	**52**	**11**	**-**	**206**
2014						
External revenue	6,638	2,520	2,809	301	411	12,679
Total revenue	6,638	2,520	2,809	301	411	12,679
Underwriting profit/(loss)	713	211	206	9	1	1,140
Investment income net of investment fees - technical reserves	303	160	(26)	3	(1)	439
Insurance profit/(loss)	1,016	371	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 before income tax	1,016	380	183	14	209	1,802
Income tax expense						(472)
Profit/(loss) for the year						1,330
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	1,759	1,759
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

NOTE 8. EARNINGS PER SHARE

	CONSOLIDATED	
	2015	2014
	cents	cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share*	**31.22**	56.09
Diluted earnings per ordinary share	**30.45**	53.62

* 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	
	2015	2014
	$m	$m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the year	**830**	1,330
Profit attributable to non-controlling interests	**(102)**	(97)
Profit/(loss) attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**728**	1,233
Earnings used in calculating diluted earnings per share		
Finance costs of convertible securities, net of tax	**26**	24
Profit/(loss) attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**754**	1,257

	CONSOLIDATED	
	2015	2014
	Number of shares in millions	Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue	**2,345**	2,211
Weighted average number of treasury shares held in trust	**(13)**	(13)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,332**	2,198
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**131**	133
Unvested share based remuneration rights supported by treasury shares held in trust	**13**	13
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**2,476**	2,344

NOTE 9. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
2015					
2015 interim dividend	**13.0**	**304**	**1 April 2015**	**30%**	**100%**
2014 final dividend	**26.0**	**609**	**8 October 2014**	**30%**	**100%**
		913			
2014					
2014 interim dividend	13.0	304	2 April 2014	30%	100%
2013 final dividend	25.0	519	9 October 2013	30%	100%
		823			

It is standard practice that the Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy (refer to section AD 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 $4 million (2014-$3 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 with ordinary shares to elect to receive their dividend entitlement in the form of IAG shares. The price of DRP shares is the volume weighted average share 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 2015 interim dividend paid on 1 April 2015 was settled with the on-market purchase of 9.8 million shares priced at $5.9916 per share (based on a daily volume weighted average price for 10 trading days from 9 March 2015 to 20 March 2015 inclusive, with no discount applied).

A copy of the terms and conditions for the DRP are available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

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

	CENTS PER SHARE	TOTAL AMOUNT $m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2015 final dividend	**16.0**	**389**	**7 October 2015**	**30%**	**100%**

On 21 August 2015 the Board determined the final dividend will be payable to shareholders on 7 October 2015.

The Company's DRP will operate for the final dividend by acquiring shares on-market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the DRP is 10 September 2015. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

D. HISTORICAL SUMMARY

The table below provides an 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 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	**YEAR ENDED 30 JUNE 2015**
Interim dividend	13.5	13.5	13.5	4.0	8.5	9.0	5.0	11.0	13.0	**13.0**
Final dividend	16.0	16.0	9.0	6.0	4.5	7.0	12.0	25.0	26.0	**16.0**
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 (post-tax); and
- excluding any unusual items (non-recurring in nature, for example the expenses associated with restructuring) after tax.

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 2015 $m	2014 $m
Franking account balance at reporting date at 30%	**525**	609
Franking credits to arise from payment of income tax payable	**15**	81
Franking credits to arise from receipt of dividends receivable	**1**	-
Franking credits available for future reporting periods	**541**	690
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	**(167)**	(261)
Franking credits available for subsequent financial periods based on a tax rate of 30%	**374**	429

After payment of the final dividend the franking balance of the Company has $292 million franking credits available for subsequent financial periods and is capable of fully franking a further $681 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% (2014-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
			2015			2014
	Current year	**Prior years**	**Total**	Current year	Prior years	Total
	$m	**$m**	**$m**	$m	$m	$m
Gross claims - undiscounted	**8,956**	**199**	**9,155**	6,728	309	7,037
Discount	**(205)**	**413**	**208**	(199)	220	21
Gross claims - discounted	**8,751**	**612**	**9,363**	6,529	529	7,058
Reinsurance and other recoveries - undiscounted	**(1,651)**	**(734)**	**(2,385)**	(1,074)	(806)	(1,880)
Discount	**61**	**(98)**	**(37)**	49	(26)	23
Reinsurance and other recoveries - discounted	**(1,590)**	**(832)**	**(2,422)**	(1,025)	(832)	(1,857)
Net claims expense	**7,161**	**(220)**	**6,941**	5,504	(303)	5,201

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	CONSOLIDATED 2015 $m	2014 $m
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**11,283**	10,696
Claims handling costs	**453**	449
Risk margin	**2,574**	2,799
	14,310	13,944
Discount to present value	**(1,623)**	(1,938)
Gross outstanding claims liability - discounted	**12,687**	12,006

The outstanding claims liability includes $6,977 million (2014-$7,240 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					
			2015			2014
	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	**12,006**	**(3,248)**	**8,758**	10,474	(2,858)	7,616
Movement in the prior year central estimate	**600**	**(727)**	**(127)**	440	(692)	(252)
Current year claims incurred	**8,640**	**(1,744)**	**6,896**	6,225	(1,087)	5,138
Claims paid/recoveries received	**(8,946)**	**2,202**	**(6,744)**	(7,009)	1,892	(5,117)
Movement in discounting	**397**	**(124)**	**273**	252	(71)	181
Movement in risk margin	**79**	**(116)**	**(37)**	130	(23)	107
Addition through business acquisition	**9**	**(5)**	**4**	1,325	(308)	1,017
Net foreign currency movements	**(98)**	**49**	**(49)**	169	(101)	68
Balance at the end of the financial year	**12,687**	**(3,713)**	**8,974**	12,006	(3,248)	8,758

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											
	2005 and prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	**$m**	$m
NET ULTIMATE CLAIMS PAYMENTS												
Development												
At end of accident year		**4,051**	**4,855**	**4,721**	**4,732**	**4,704**	**5,052**	**5,242**	**5,161**	**5,548**	**6,254**	
One year later		**3,979**	**4,822**	**4,681**	**4,783**	**4,680**	**5,159**	**5,317**	**5,084**	**5,551**		
Two years later		**3,903**	**4,778**	**4,681**	**4,719**	**4,577**	**5,197**	**5,248**	**5,003**			
Three years later		**3,911**	**4,798**	**4,660**	**4,712**	**4,527**	**5,238**	**5,158**				
Four years later		**3,898**	**4,727**	**4,640**	**4,626**	**4,475**	**5,387**					
Five years later		**3,872**	**4,652**	**4,570**	**4,573**	**4,422**						
Six years later		**3,853**	**4,626**	**4,559**	**4,528**							
Seven years later		**3,860**	**4,616**	**4,544**								
Eight years later		**3,858**	**4,607**									
Nine years later		**3,836**										
Current estimate of net ultimate claims payments		**3,836**	**4,607**	**4,544**	**4,528**	**4,422**	**5,387**	**5,158**	**5,003**	**5,551**	**6,254**	
Cumulative payments made to date		**(3,756)**	**(4,557)**	**(4,442)**	**(4,382)**	**(4,205)**	**(4,320)**	**(4,586)**	**(4,144)**	**(4,263)**	**(3,671)**	
Net undiscounted outstanding claims payments	**593**	**80**	**50**	**102**	**146**	**217**	**1,067**	**572**	**859**	**1,288**	**2,583**	**7,557**
Discount to present value	**(118)**	**(10)**	**(5)**	**(11)**	**(16)**	**(21)**	**(42)**	**(48)**	**(68)**	**(88)**	**(121)**	**(548)**
Net discounted outstanding claims payments	**475**	**70**	**45**	**91**	**130**	**196**	**1,025**	**524**	**791**	**1,200**	**2,462**	**7,009**
Reconciliation												
Claims handling costs												**406**
Risk margin												**1,559**
Net outstanding claims liability												**8,974**

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.

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 statements.

V. Central estimate and risk margin

a. REPORTING DATE VALUES

	CONSOLIDATED	
	2015	2014
	%	%
The percentage risk margin applied to the net outstanding claims liability	**21**	23
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 run-off 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% (2014-90%).

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 PERSONAL INSURANCE	AUSTRALIA COMMERCIAL INSURANCE	NEW ZEALAND	ASIA
2015				
Discounted average term to settlement	**3.1 years**	**4.4 years**	**1.0 years**	**0.4 years**
Inflation rate	**2.3%-4.0%**	**0.0%-4.5%**	**2.0%-2.5%**	**0.0%-4.0%**
Superimposed inflation rate	**0.0%-5.0%**	**0.0%-5.0%**	**0.0%**	**0.0%**
Discount rate	**1.9%-4.8%**	**1.9%-4.7%**	**2.2%-3.3%**	**0.0%**
Claims handling costs ratio	**3.9%**	**5.2%**	**5.3%**	**1.4%**
2014				
Discounted average term to settlement	3.2 years	4.7 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%	2.4%-5.0%	3.0%-4.1%	0.0%
Claims handling costs ratio	4.2%	5.8%	5.2%	2.1%

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 PERSONAL INSURANCE	AUSTRALIA COMMERCIAL INSURANCE	NEW ZEALAND	ASIA
		$m	$m	$m	$m
2015					
Discounted average term to settlement	**+10%**	**(38)**	**(75)**	**(1)**	**-**
	-10%	**38**	**73**	**1**	**-**
Inflation rate	**+1%**	**125**	**152**	**6**	**1**
	-1%	**(117)**	**(134)**	**(6)**	**(1)**
Discount rate	**+1%**	**(117)**	**(133)**	**(5)**	**-**
	-1%	**127**	**153**	**5**	**-**
Claims handling costs ratio	**+1%**	**57**	**42**	**6**	**3**
	-1%	**(57)**	**(42)**	**(6)**	**(3)**
2014					
Discounted average term to settlement	+10%	(52)	(89)	(1)	-
	-10%	52	85	1	-
Inflation rate	+1%	135	141	4	-
	-1%	(127)	(124)	(4)	-
Discount rate	+1%	(126)	(122)	(4)	-
	-1%	137	141	4	-
Claims handling costs ratio	+1%	53	36	7	2
	-1%	(53)	(36)	(7)	(2)

NOTE 11. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	CONSOLIDATED	
	2015	2014
	$m	$m
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable on outstanding claims - undiscounted	**4,262**	3,894
Discount to present value	**(549)**	(646)
Expected reinsurance and other recoveries receivable on outstanding claims - discounted	**3,713**	3,248

The carrying value of reinsurance recoveries and other recoveries includes $1,839 million (2014-$1,882 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	
	2015	2014
	$m	$m
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**1,028**	795
Acquisition costs deferred	**1,744**	1,607
Amortisation charged to profit	**(1,750)**	(1,386)
Net foreign exchange movements	**(7)**	12
Deferred acquisition costs at the end of the financial year	**1,015**	1,028

The carrying value of deferred acquisition costs includes $90 million (2014-$82 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	**706**	542
Reinsurance expenses deferred	**2,326**	1,186
Amortisation charged to profit	**(1,196)**	(1,077)
Addition through business acquisition	**3**	20
Net foreign exchange movements	**(16)**	35
Deferred outwards reinsurance expense at the end of the financial year	**1,823**	706

The carrying value of deferred outwards reinsurance expense includes $20 million (2014-$9 million) which is expected to be amortised more than 12 months from reporting date.

The increase in deferred outwards reinsurance expense predominantly relates to recognition of the Berkshire Hathaway quota share agreement for unearned premium ceded at reporting date.

NOTE 13. UNEARNED PREMIUM LIABILITY

	CONSOLIDATED	
	2015	2014
	$m	$m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**6,256**	5,145
Deferral of premiums written during the financial year	**5,935**	5,062
Earning of premiums written in previous financial years	**(6,020)**	(5,004)
Additions through business acquisition	**7**	987
Net foreign exchange movements	**(22)**	66
Unearned premium liability at the end of the financial year	**6,156**	6,256

The carrying value of unearned premium liability includes $246 million (2014-$236 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. 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 Personal Insurance, Australia Commercial Insurance 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 (2014-surplus for the Group).

	CONSOLIDATED	
	2015	2014
	$m	$m
Net central estimate of present value of expected future cash flows from future claims	**3,481**	4,013
Risk margin of the present value of expected future cash flows	**81**	93
	3,562	4,106
Risk margin percentage	**2.3%**	2.3%
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	
	2015	2014
	$m	$m
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held in investment	**1,127**	2,554
Government and semi-government bonds	**2,915**	2,248
Corporate bonds and notes	**8,158**	7,538
Subordinated securities	**1,769**	1,307
Fixed interest trusts	**71**	63
Other	**85**	74
	14,125	13,784
II. Equity investments		
a. DIRECT EQUITIES		
Listed	**598**	808
Unlisted	**304**	119
b. EQUITY TRUSTS (INCLUDING PROPERTY TRUSTS)		
Listed	**58**	69
Unlisted	**182**	426
	1,142	1,422
III. Other investments		
Other trusts	**268**	158
	268	158
IV. Derivatives		
Investment related derivatives	**-**	13
	-	13
	15,535	15,377

The Group's equity investments include the exposure to convertible securities.

As at 30 June 2014 $728 million of other interest bearing securities have been reclassified to corporate bonds and notes within the above disclosure to conform to the current year's presentation.

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 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.

				CONSOLIDATED
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$m	$m	$m	$m
2015				
Interest bearing investments	**4,056**	**10,068**	**1**	**14,125**
Equity investments	**636**	**363**	**143**	**1,142**
Other investments	**-**	**268**	**-**	**268**
	4,692	**10,699**	**144**	**15,535**
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

NOTE 15. RECEIVABLES

	CONSOLIDATED	
	2015	2014
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Premium receivable	**3,290**	3,357
Provision for impairment	**(39)**	(41)
Net premium receivable	**3,251**	3,316
II. Trade and other receivables[(a)]		
Reinsurance recoveries on paid claims	**300**	230
Other trade debtors	**52**	39
Provision for impairment	**(6)**	(5)
	46	34
Loan to associates[(b)]	**102**	98
Investment income receivable	**88**	106
Investment transactions not yet settled at reporting date	**5**	38
Corporate treasury derivatives receivable	**3**	10
Other debtors	**109**	112
Trade and other receivables	**653**	628
	3,904	3,944

(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

	CONSOLIDATED				
	Software development expenditure $m	Distribution channels $m	Customer relationships $m	Brands and other $m	Total $m
2015					
A. COMPOSITION					
Cost	**714**	**152**	**169**	**118**	**1,153**
Accumulated amortisation	**(351)**	**(36)**	**(58)**	**(22)**	**(467)**
Accumulated impairment	**(7)**	**-**	**-**	**-**	**(7)**
Net foreign exchange movements	**(13)**	**(2)**	**3**	**4**	**(8)**
Balance at the end of the financial year	**343**	**114**	**114**	**100**	**671**
B. RECONCILIATION OF MOVEMENTS					
Balance at the beginning of the financial year	**288**	**155**	**144**	**113**	**700**
Additions acquired and developed	**118**	**2**	**-**	**10**	**130**
Disposal through sale of businesses	**-**	**(10)**	**-**	**-**	**(10)**
Amortisation	**(59)**	**(31)**	**(28)**	**(21)**	**(139)**
Net foreign exchange movements	**(4)**	**(2)**	**(2)**	**(2)**	**(10)**
Balance at the end of the financial year	**343**	**114**	**114**	**100**	**671**
2014					
C. COMPOSITION OF COMPARATIVES					
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
D. 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 acquisition	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
E. AMORTISATION RATES	10%-33.3%	10%-20%	10%-33.3%	0%-33.3%	

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.

G. IMPAIRMENT TESTING

For each category an impairment trigger review is conducted and where necessary the recoverable amount of particular assets determined.

I. For the year ended 30 June 2015

There was no impairment charge recognised during the year.

II. For the year ended 30 June 2014

There was no impairment charge recognised during the year.

NOTE 17. GOODWILL

	CONSOLIDATED	
	2015	2014
	$m	$m
A. COMPOSITION		
Goodwill	**2,915**	2,898
Net foreign exchange movements	**(25)**	1
	2,890	2,899
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**2,899**	1,666
Additional amounts arising from business acquisitions	**17**	1,194
Net foreign currency movements	**(26)**	39
Balance at the end of the financial year	**2,890**	2,899
C. ALLOCATION TO CASH GENERATING UNITS		
Australia Personal Insurance operations	**771**	763
Australia Commercial Insurance operations	**1,452**	1,443
New Zealand operations	**611**	645
Asia operations	**56**	48
	2,890	2,899

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 markets, 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 five or ten, 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 2015 are: Australia Personal Insurance operations 4.5% (2014-4.5%), Australia Commercial Insurance operations 4.5% (2014-4.5%) and New Zealand operations 3.5% (2014-3.5%).

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 post-tax discount rates used for significant cash generating units as at 30 June 2015 are: Australia Personal Insurance operations 10.2% (2014-10.2%), Australia Commercial Insurance operations 10.2% (2014-10.2%) and New Zealand operations 10.8% (2014-10.8%).

E. IMPAIRMENT TESTING

I. For the year ended 30 June 2015

There was no impairment charge recognised during the year.

II. For the year ended 30 June 2014

There was no impairment charge recognised during the year.

NOTE 18. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2015	2014
	$m	$m
A. COMPOSITION		
I. Trade creditors		
Commissions payable	**226**	229
Stamp duty payable	**120**	123
GST payable on premium receivable	**136**	137
Other	**332**	323
	814	812
II. Other payables		
Other creditors and accruals	**444**	503
Investment creditors	**38**	176
Interest payable on interest bearing liabilities	**16**	15
Loan from joint venture*	**9**	8
	1,321	1,514

* 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 $27 million (2014-$59 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	
	2015	2014
	$m	$m
A. COMPOSITION		
Restructuring provision	**59**	50
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**50**	6
Additions	**27**	50
Amounts settled	**(18)**	(6)
Balance at the end of the financial year	**59**	50

The provision primarily comprises restructuring costs in respect of the new operating model in Australia (implemented from 1 July 2014). All of the provision outstanding at the reporting date is expected to be settled within 12 months (2014–all). The balance has not been discounted.

NOTE 20. INTEREST BEARING LIABILITIES

		CONSOLIDATED			
		2015		2014	
	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**	**383**	377	402
Reset exchangeable securities	B. II	**550**	**567**	550	589
b. TIER 2 REGULATORY CAPITAL					
GBP subordinated term notes	B. III	**205**	**210**	182	190
NZD subordinated bonds	B. IV	**286**	**297**	302	314
AUD subordinated convertible term notes	B. V	**350**	**358**	350	357
II. Operational nature					
Other interest bearing liabilities		**2**	**2**	2	2
Less: capitalised transaction costs		**(8)**		(11)	
		1,762		1,752	

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

B. 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 an 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; and
- 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); and
- 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 has since been bought back.

Key terms and conditions:

- Fixed interest rate of 5.625% per annum payable annually; and
- 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. 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 fifth anniversary thereafter plus a margin of 3.78% per annum; and
- The bonds may also be redeemed by the issuer upon certain events subject to APRA's approval.

V. 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).

NOTE 21. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	2015	2014	**2015**	2014
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
I. Ordinary shares				
Balance at the beginning of the financial year	**2,341**	2,079	**6,775**	5,353
Shares issued under institutional placement, net of transaction costs	**90**	219	**500**	1,186
Shares issued under Share Purchase Plan, net of transaction costs	**-**	43	**-**	236
Balance at the end of the financial year	**2,431**	2,341	**7,275**	6,775

All ordinary shares on issue are fully paid. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held. Dividends, if declared, are subject to there being distributable profits available and not breaching APRA capital adequacy requirements.

II. Changes during the year
On 16 June 2015, IAG issued 89,766,607 new fully paid ordinary shares at $5.57 per share, for $500 million total consideration.

B. STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY
As part of the strategic relationship with Berkshire Hathaway, the Company and National Indemnity Company ('NICO') entered into a subscription agreement dated 16 June 2015 ('Subscription Agreement'). The components of the Subscription Agreement may impact future ordinary share capital of the Company. The terms of the Subscription Agreement were released to the ASX on 16 June 2015 (attached to the Appendix 3B on that date).

I. Put option
IAG has an option to place up to a further 121,569,233 new shares at a maximum issue price of $6.50 per share to NICO within 24 months after the date of the Subscription Agreement. Under standstill terms of the Subscription Agreement, NICO will not increase its shareholding in IAG above 14.9% for the agreement period.

II. Anti-dilution right

On entry by the Company and NICO into the Subscription Agreement, the Company granted NICO a right to maintain, by way of a right to participate in any issue of shares or to subscribe for shares, its percentage interest in the issued share capital of the Company ('Anti-dilution Right') in respect of a diluting event which occurs or is announced after 16 June 2015.

C. 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 AG 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.

D. 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 AA of the summary of significant accounting policies note.

NOTE 22. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED	
	2015	2014
	$m	$m
A. COMPOSITION		
Cash held for operational purposes	**306**	447
Cash and short term money held in investments	**1,127**	2,554
Other	**-**	9
Cash and cash equivalents	**1,433**	3,010

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.

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 bears no interest.

	CONSOLIDATED	
	2015	2014
	$m	$m
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	**830**	1,330
I. Non-cash items		
Depreciation of property and equipment	**67**	62
Amortisation and impairment of intangible assets and goodwill	**139**	49
Impairment of investment in associate	**60**	-
Net realised (gains) and losses on disposal of investments	**(227)**	2
Net unrealised (gains) and losses on revaluation of investments	**(14)**	(296)
Retained earnings adjustment for share based remuneration	**28**	25
Other	**19**	(12)
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	**(443)**	(248)
Prepayments, deferred levies and charges	**(1,097)**	(172)
Deferred tax assets	**(175)**	29

	CONSOLIDATED	
	2015	2014
	$m	$m
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	**1,057**	42
Provisions	**(17)**	(33)
Current tax liabilities	**(94)**	(32)
Outstanding claims liability	**672**	207
Unearned premium liability	**(107)**	124
Net cash flows from operating activities	**698**	1,077

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 2015

During the current financial year, the Group acquired the Dynamiq Group, PT Asuransi Parolamas and the Ambiata Group for a total consideration of $28 million.

II. For the financial year ended 30 June 2014

a. WESFARMERS ACQUISITION

During the financial year ended June 2015, the acquisition accounting was finalised in respect of the acquisition of the former Wesfarmers business. The provisional fair values on consolidation disclosed at 30 June 2014 have been revised to reflect new information about conditions that existed at the date of acquisition. The consolidated balance sheet and associated notes as at 30 June 2014 have been restated to reflect these adjustments, with no overall impact to the Group's net assets.

The provisional and final fair values are disclosed below:

	WESFARMERS ACQUISITION	
	FINAL	PROVISONAL
	$m	$m
Purchase price		
Total purchase consideration	**1,986**	1,980
Fair value of identifiable assets and liabilities acquired and goodwill recognised by acquiree		
Cash and cash equivalents	**1,558**	1,558
Investments	**218**	218
Trade and other receivables	**536**	536
Reinsurance and other recoveries on outstanding claims	**308**	291
Deferred tax assets	**60**	40
Trade and other payables	**(144)**	(134)
Deferred tax liabilities	**(108)**	(108)
Unearned premium liability	**(976)**	(976)
Outstanding claims liability	**(1,320)**	(1,251)
Other assets and liabilities	**283**	294
Net identifiable assets acquired during the financial year	**415**	468
Intangible assets recognised upon acquisition		
Brands	**77**	77
Customer relationships	**104**	104
Distribution channels	**140**	140
Software development expenditure	**57**	57
Goodwill	**1,193**	1,134
	1,571	1,512

B. OTHER ACQUISITIONS

I. For the financial year ended 30 June 2015

There were no other material acquisitions by the Consolidated entity.

C. DISPOSAL OF SUBSIDIARIES

I. For the financial year ended 30 June 2015

There were no material 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%	
			2015	2014
			%	%
A. ULTIMATE PARENT				
Insurance Australia Group Limited		Australia		
B. SUBSIDIARIES				
I. Australian general insurance operations				
ACN 137 507 110 Pty Limited	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 Ltd	B	Australia		
IAG Foundation Pty Limited (formerly CGU Foundation Pty Ltd)	A	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		Australia		
World Class Accident Repairs (Cheltenham North) Pty Ltd	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	New Zealand		
IAG (NZ) Holdings Limited	C	New Zealand		
IAG (NZ) Share Plan Nominee Limited	C	New Zealand		
Lumley General Insurance (NZ) Limited	C	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		
III. Other international operations				
AAA Assurance Corporation	B	Vietnam	**63.17**	63.17
IAG (Asia) General Pte Ltd	C	Singapore		
IAG Re Labuan (L) Berhad	C	Malaysia		
IAG Re Singapore Pte Ltd	C	Singapore		
PT Asuransi Parolamas	B	Indonesia	**80.00**	-
Safety Insurance Public Company Limited	C	Thailand	**98.62**	98.62

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2015	2014
			%	**%**
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	**90.83**	86.20
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				
Ambiata Holdings Pty Ltd	A	Australia		-
Ambiata Pty Ltd	A	Australia		-
Dynamiq LLC		USA		-
Dynamiq MY SDN BHD		Malaysia	**60.00**	-
Dynamiq People Pty Ltd		Australia		-
Dynamiq Pty Ltd		Australia		-
Dynamiq Strategy Pty Ltd		Australia	**55.00**	-
Dynamiq US Pty Ltd		Australia		-
Empire Equity Australia Pty Ltd	A	Australia		
EMQ Pty Ltd		Australia	**55.00**	-
IAG International Pty Limited		Australia		
IAG & NRMA Superannuation Pty Limited	A	Australia		
IAG Finance (New Zealand) 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		Australia		
Lumley Technology Pty Ltd		Australia		
Safety Thailand Holding Pty Limited	A	Australia		
Thailand Insurance Holdings Pty Limited	A	Australia		
WFI Dormant Pty Ltd		Australia		
WFI Insurance Holdings Pty Ltd		Australia		
C. ENTITIES IN VOLUNTARY LIQUIDATION AT 30 JUNE 2015				
Alba Group Pte Ltd	C	Singapore	**-**	
IAG Insurance (Thailand) Limited	C	Thailand	**-**	
Alba Underwriting Limited		United Kingdom	**-**	-
AU No 2 Limited		United Kingdom	**-**	-
B&BHL Limited		United Kingdom	**-**	-
Diagonal Underwriting Agency Limited		United Kingdom	**-**	-
EIGL Limited		United Kingdom	**-**	-

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.

NOTE 25. NON-CONTROLLING INTERESTS

A. SUMMARISED FINANCIAL INFORMATION

Set out below is summarised financial information for the material non-controlling interests, being Insurance Manufacturers of Australia Pty Limited of which the Group's beneficial interest is 70%. The amounts disclosed are before intercompany eliminations.

	INSURANCE MANUFACTURERS OF AUSTRALIA PTY LIMITED	
	2015	2014
	$m	$m
I. Summarised statement of comprehensive income		
Net premium revenue	**2,686**	2,633
Profit/(loss) after tax attributable to IAG shareholders	**237**	238
Profit/(loss) after tax attributable to non-controlling interest	**101**	102
Other comprehensive income	**3**	2
Total comprehensive income	**341**	342
II. Summarised balance sheet		
Total assets	**3,498**	3,459
Total liabilities	**(2,845)**	(2,716)
Net assets	**653**	743
Carrying amount of non-controlling interest	**196**	223
III. Summarised cash flow		
Net cash flows from operating and investing activities	**444**	204
Dividends paid to other Group entities	**(302)**	(189)
Dividends paid to non-controlling interest	**(129)**	(81)
Total net cash flows	**13**	(66)

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	
					2015	**2015**	2014
					$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	A	31 March	Malaysia	Insurance underwriting	**358**	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)	A	31 March	India	Insurance underwriting	**118**	**26.00**	26.00
Bohai Property Insurance Company Ltd (Bohai Insurance)	B	31 December	China	Insurance underwriting	**67**	**20.00**	20.00
Other					**18**		
					561		

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	
	2015	2014
	$m	$m
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**572**	577
Additional investment in existing associate	**20**	12
Disposal of investment in associate	**-**	(7)
Share of associates' net profit/(loss)*	**26**	12
Impairment of investment in associate	**(60)**	-
Net foreign exchange movements	**49**	(21)
Dividends received	**(46)**	(1)
Balance at the end of the financial year	**561**	572

* 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 (2014-$20 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.

The summarised financial information is shown on a 100% basis, and is prepared in accordance with IFRS under Group accounting policies, for the financial statements for the year ended 31 March 2015 for AmGeneral and SBI General and for the financial year ended 31 December 2014 for Bohai Insurance. Accordingly, the following summarised information represents the financial position and performance of the entities as a whole and not just IAG's share.

		2015			2014	
	AmGeneral Holdings Berhad	**SBI General Insurance Company Limited**	**Bohai Property Insurance Company Ltd**	AmGeneral Holdings Berhad	SBI General Insurance Company Limited	Bohai Property Insurance Company Ltd
	$m	**$m**	**$m**	$m	$m	$m
I. Summarised statement of comprehensive income						
Revenue	**588**	**345**	**433**	617	236	347
Profit/(loss) after tax	**82**	**(20)**	**(13)**	45	(17)	(17)
Other comprehensive income	**6**	**-**	**3**	(6)	-	-
Total comprehensive income	**88**	**(20)**	**(10)**	39	(17)	(17)
Dividends received from associate	**46**	**-**	**-**	1	-	-
II. Summarised balance sheet						
Total assets	**1,939**	**622**	**717**	1,690	334	634
Total liabilities	**(1,178)**	**(445)**	**(526)**	(1,073)	(239)	(445)
Net assets as at reporting date	**761**	**177**	**191**	617	95	189
Group's ownership interest	**373**	**46**	**38**	302	25	38
Other adjustments*	**(15)**	**72**	**29**	50	62	69
Carrying value as at 30 June	**358**	**118**	**67**	352	87	107

* Other adjustments include IFRS adjustments, foreign exchange revaluations, goodwill, intangibles, and share of profit/(loss) from financial statement date to 30 June.

During the year there was a $60 million writedown of the investment in Bohai Insurance. This was influenced by a revision to the expected cash flows of the business, together with the indicated issue price of new shares in a capital raising in which IAG does not intend to participate. The post-tax discount rate used was 13.5% (2014-13.5%).

NOTE 27. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2015	2014
	$m	$m
A. EMPLOYEE BENEFITS PROVISION		
Annual leave	**101**	98
Long service leave	**90**	86
Cash based incentive arrangements	**110**	106
Defined benefit superannuation plans	**16**	39
Other employee benefits*	**7**	8
	324	337

* There is one defined benefit pension arrangement in Australia with a discounted liability of $5 million as at the current reporting date (2014-$6 million) involving 50 participants (2014-55) and one defined benefit pension arrangement in New Zealand with a discounted liability of $2 million as at the current reporting date (2014-$2 million) involving 32 participants (2014-34). These liabilities are met from general assets rather than assets being set aside in trust.

The employee benefits provision includes $79 million (2014-$95 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 average price per share at which the shares were purchased during the reporting period was $6.57 (2014-$6.07). The trusts held 14,784,403 shares as at 30 June 2015 (2014-16,547,487 shares) representing 0.61% (2014-0.71%) 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 Deferred Award Rights Plan (DAR Plan) and Executive Performance Rights Plan (EPR Plan) 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 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; and
- 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	NUMBER OF RIGHTS AT 30 JUNE Exercisable
2015							
19/12/2006	**$5.354**	**33,279**	**-**	**(8,625)**	**-**	**24,654**	**24,654**
27/09/2007	**$4.820**	**128,020**	**-**	**(39,200)**	**-**	**88,820**	**88,820**
18/09/2008	**$3.668**	**276,600**	**-**	**(74,700)**	**-**	**201,900**	**201,900**
27/02/2009	**$3.397**	**10,000**	**-**	**-**	**-**	**10,000**	**10,000**
25/09/2009	**$3.600**	**108,900**	**-**	**(33,500)**	**-**	**75,400**	**75,400**
25/03/2010	**$3.780**	**3,200**	**-**	**(3,200)**	**-**	**-**	**-**
06/10/2010	**$3.532**	**162,540**	**-**	**(54,320)**	**-**	**108,220**	**108,220**
03/03/2011	**$3.467**	**4,200**	**-**	**-**	**-**	**4,200**	**4,200**
21/10/2011	**$2.880**	**204,600**	**-**	**(87,850)**	**-**	**116,750**	**116,750**
26/10/2012	**$4.291**	**1,706,800**	**-**	**(1,516,150)**	**(6,100)**	**184,550**	**184,550**
25/02/2013*	**$5.467**	**22,950**	**-**	**(18,950)**	**-**	**4,000**	**4,000**
25/02/2013*	**$5.511**	**10,700**	**-**	**-**	**-**	**10,700**	**10,700**
01/11/2013*	**$5.684**	**2,358,300**	**-**	**(1,102,000)**	**(10,700)**	**1,245,600**	**119,950**
01/11/2013*	**$5.876**	**11,200**	**-**	**-**	**-**	**11,200**	**11,200**
11/03/2014	**$5.083**	**7,600**	**-**	**(3,800)**	**-**	**3,800**	**-**
02/04/2014	**$5.216**	**21,100**	**-**	**(10,550)**	**-**	**10,550**	**-**
03/11/2014*	**$6.028**	**-**	**2,382,100**	**(70,100)**	**(24,400)**	**2,287,600**	**6,200**
03/11/2014*	**$6.204**	**-**	**5,000**	**-**	**-**	**5,000**	**-**
17/03/2015	**$5.819**	**-**	**4,600**	**-**	**-**	**4,600**	**-**
17/03/2015	**$5.819**	**-**	**1,800**	**-**	**-**	**1,800**	**-**
		5,069,989	**2,393,500**	**(3,022,945)**	**(41,200)**	**4,399,344**	**966,544**

* Rights issued on the same grant date may have different fair values to reflect different vesting periods.

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	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*	$4.291	3,171,500	-	(1,398,400)	(66,300)	1,706,800	241,450
26/10/2012*	$4.360	13,400	-	(13,400)	-	-	-
25/02/2013*	$5.467	41,100	-	(18,150)	-	22,950	5,600
25/02/2013*	$5.511	10,700	-	-	-	10,700	10,700
01/11/2013*	$5.684	-	2,431,600	(31,300)	(42,000)	2,358,300	-
01/11/2013*	$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

* 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 2015 was $6.08 (2014-$5.74).

The fair value of the rights is calculated as at the grant date using a Black-Scholes valuation model.

			SIGNIFICANT FACTORS AND ASSUMPTIONS
2015			
Grant date		**3/11/2014**	**17/03/2015**
Share price on grant date ($)		**$6.51**	**$5.99**
Exercise price ($)		**$1 per tranche exercised**	**$1 per tranche exercised**
Risk free interest rate (%)		**2.80%**	**2.38%**
Expected dividend yield (%)		**5.82%**	**6.31%**
Expected life of rights (years)		**1 or 2 years**	**1 or 2 years**
2014			
Grant date	1/11/2013	11/03/2014	2/04/2014
Share price on grant date ($)	$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

The volatility assumption has been set considering the Company's historic share price. 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 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 is as follows:
  - 50% is subject to a return on equity hurdle (ROE allocation); and
  - 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; or
  - 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; or
  - A vesting at 0% if ROE is below 1.2 x WACC.
- 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
2015								
29/10/2007	**$2.870**	**$4.310**	**4,100**	**-**	**-**	**-**	**4,100**	**4,100**
18/09/2008	**$2.530**	**$3.410**	**37,015**	**-**	**(3,265)**	**-**	**33,750**	**33,750**
25/09/2009	**$2.480**	**$3.480**	**1,248,830**	**-**	**(79,330)**	**(1,054,400)**	**115,100**	**31,350**
24/11/2009	**$2.590**	**$3.650**	**395,300**	**-**	**-**	**(395,300)**	**-**	**-**
06/10/2010	**$2.420**	**$3.380**	**242,300**	**-**	**(175,200)**	**-**	**67,100**	**67,100**
21/10/2011	**$1.860**	**$2.690**	**4,675,200**	**-**	**(4,557,700)**	**(8,500)**	**109,000**	**109,000**
26/10/2012	**$3.046**	**$4.085**	**4,888,400**	**-**	**-**	**-**	**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**	**-**
03/11/2014	**$3.018**	**$5.578**	**-**	**3,592,600**	**-**	**-**	**3,592,600**	**-**
17/03/2015	**$2.161**	**$5.185**	**-**	**83,000**	**-**	**-**	**83,000**	**-**
			14,737,445	**3,675,600**	**(4,815,495)**	**(1,458,200)**	**12,139,350**	**245,300**
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

The weighted average share price for rights exercised for the year ended 30 June 2015 was $6.08 (2014-$5.74).

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.

The volatility assumption has been set considering the Company's historic share price. 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	
2015		
Grant date	**3/11/2014**	**17/03/2015**
Share price on grant date ($)	**$6.51**	**$5.99**
Risk free interest rate (%)	**2.80%**	**2.38%**
Expected dividend yield (%)	**5.82%**	**6.31%**
Expected life of rights (years)*	**3 or 4 years**	**3 or 4 years**
2014		
Grant date	1/11/2013	11/03/2014
Share price on grant date ($)	$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

* 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 2015 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. COMMITMENTS

	CONSOLIDATED	
	2015	2014
	$m	$m
OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	**130**	134
Due within 1 to 2 years	**113**	118
Due within 2 to 5 years	**192**	263
Due after 5 years	**40**	85
II. Equipment		
Due within 1 year	**20**	19
Due within 1 to 2 years	**12**	18
Due within 2 to 5 years	**13**	24
	520	661

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 30. 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 $407 million (2014-$638 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 31. 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 2015 operated with business divisions supported through shared services (such as Enterprise Operations providing accounting and processing services to Australian 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	
	2015	2014
	$000	$000
Short term employee benefits	**19,371**	17,349
Post-employment benefits	**429**	308
Other long term benefits	**199**	203
Share based payments	**12,676**	11,278
	32,675	29,138

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 within the Consolidated entity.

NOTE 32. DERIVATIVES

A. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS APPLIED

I. Net investment hedges

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

Each of the hedging relationships has been broadly effective throughout the current 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
						2015			2014
	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	**1,643**	**-**	**-**	**1,643**	**97**	**(4)**	1,304	9	(6)

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

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

I. Reporting date positions

The notional amount and fair value of derivative financial instruments, together with a maturity profile, are provided below:

									CONSOLIDATED
						2015			2014
	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/TRADE AND OTHER PAYABLES (INVESTMENT RELATED DERIVATIVES)									
Interest rate swaps	**-**	**-**	**-**	**-**	**-**	**-**	310	8	-
Options	**-**	**-**	**-**	**-**	**-**	**-**	(2)	-	-
Bond futures	**4,548**	**-**	**-**	**4,548**	**-**	**-**	3,415	-	(1)
Share price index futures	**271**	**-**	**-**	**271**	**-**	**-**	271	-	-
Forward foreign exchange contracts	**711**	**-**	**-**	**711**	**-**	**(10)**	445	6	-
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)									
Forward foreign exchange contracts	**1,356**	**-**	**-**	**1,356**	**11**	**(101)**	302	7	-
Interest rate swaps	**200**	**-**	**-**	**200**	**-**	**-**	50	-	-

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 2015 (2014-nil).

NOTE 33. 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 are 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 licensed insurers maintains an adequate capital position from an entity perspective.

The Group has maintained both its consistent risk appetite and the following long term target capital ranges:

- 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 the dividends note).

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 influences 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	**2015**	2014
	%	%	%
Ordinary equity less goodwill and intangible assets	**60-70**	**66.2**	64.6
Interest bearing liabilities - hybrid securities and debt	**30-40**	**33.8**	35.4
Total capitalisation		**100**	100

C. REGULATORY CAPITAL COMPLIANCE

The PCA calculation is based on applying the APRA Level 2 Insurance Group requirements.

	CONSOLIDATED	
	2015	2014
	$m	$m
I. Common Equity Tier 1 capital		
Ordinary shares	**7,275**	6,775
Reserves	**(38)**	38
Retained earnings	**(337)**	(151)
Excess technical provisions (net of tax)	**748**	914
Minority interests	**201**	226
Less: Deductions	**(4,637)**	(4,514)
Common Equity Tier 1 capital (CET1 capital)	**3,212**	3,288
II. Additional Tier 1 capital		
Hybrid equities	**762**	817
Total Tier 1 capital	**3,974**	4,105
III. Tier 2 capital		
Subordinated term notes	**811**	876
Total Tier 2 capital	**811**	876
Total regulatory capital	**4,785**	4,981
IV. Prescribed Capital Amount (PCA)		
Insurance risk charge	**1,500**	1,624
Insurance concentration risk charge	**200**	225
Diversified asset risk charge	**1,489**	1,441
Aggregation benefit	**(715)**	(729)
Operating risk charge	**343**	335
Total PCA	**2,817**	2,896
PCA multiple	**1.70**	1.72
CET1 multiple	**1.14**	1.14

D. CREDIT RATING

Ratings published by Standard & Poor's (S&P) for key wholly owned insurers within the Group as at the current reporting date.

ENTITY	ISSUER CREDIT RATING	FINANCIAL STRENGTH RATING
I. Parent		
Insurance Australia Group Limited	**A/Stable**	**n/a**
II. Licensed 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**
AMI Insurance Ltd	**n/a**	**AA-/Stable**

NOTE 34. NET TANGIBLE ASSETS

	CONSOLIDATED	
	2015	2014
	$	$
Net tangible assets per ordinary share	**1.34**	1.27

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

NOTE 35. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2015	2014
	$000	$000
A. KPMG		
I. Assurance services		
Audit of the financial statements prepared for the Parent and subsidiaries	**7,927**	6,883
Audit of statutory returns in accordance with regulatory requirements	**1,051**	1,109
Other assurance services	**174**	184
	9,152	8,176
II. Advisory services		
Taxation services	**504**	905
Due diligence and other services on acquisitions, divestments and capital transactions	**132**	978
Other	**439**	277
	1,075	2,160
B. OTHER AUDITORS		
Assurance services		
Audit of the financial statements prepared for subsidiaries	**39**	873
Assurance related to regulatory requirements	**-**	164
Total remuneration of auditors	**10,266**	11,373

NOTE 36. 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	
	2015	2014
	$m	$m
A. FINANCIAL RESULTS		
Profit/(loss) for the year	**463**	769
Total comprehensive income and (expense) for the year, net of tax	**463**	769
B. FINANCIAL POSITION		
Current assets	**259**	344
Total assets	**13,917**	13,401
Current liabilities	**216**	370
Total liabilities	**4,362**	3,882
C. SHAREHOLDERS' EQUITY		
Share capital	**7,275**	6,775
Reserves	**(29)**	(12)
Retained earnings	**2,309**	2,756
Total shareholders' equity	**9,555**	9,519

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.

F. OTHER

IAG has an option to raise further share capital as part of the strategic relationship with Berkshire Hathaway, which provides IAG access to additional liquidity. Refer to the statement of changes in equity note for further details.

NOTE 37. 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 2015. These include:

- On 21 August 2015, the Board determined to pay on 7 October 2015 a final dividend of 16 cents per share, 100% franked. The dividend reinvestment plan will operate by acquiring shares on-market for participants with no discount applied; and
- The announcement on 11 August 2015 that Mr Jonathan Nicholson will be appointed to the IAG Board, as an Independent Non-Executive Director, effective 1 September 2015.

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 37, 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 2015 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 2015.

Signed at Sydney this 21st day of August 2015 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 2015, 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 37 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 2015 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 17 to 35 of the Directors' Report for the year ended 30 June 2015. 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 2015 complies with Section 300A of the Corporations Act 2001.

KPMG

Dr Andries B Terblanché
Partner

Sydney
21 August 2015

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 which are listed on the ASX under IANG.

ANNUAL REPORT

Under the Corporations Act 2001 regarding the provision of annual reports to shareholders, the default option for receiving annual reports is an electronic copy via IAG's website at www.iag.com.au.

ANNUAL GENERAL MEETING

The 2015 annual general meeting (AGM) of Insurance Australia Group Limited will be held on Wednesday, 21 October 2015 commencing at 10am at the City Recital Hall, Angel Place, Sydney NSW 2000, Australia. The AGM will be webcast live on the internet at www.iag.com.au/shareholder-centre/annual-meetings 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 2015 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 with 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 14 October 2015.

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-centre/annual-meetings.

DIVIDEND PAYMENT METHODS

Insurance Australia Group Limited no longer issues dividend payments by cheque to shareholders resident in Australia. 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 an email alert service that allows you to 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*	2015
IAG year end	30 June
Full year results and dividend announced	21 August
Annual report and notice of meeting mailout commences	7 September
Record date for final dividend	9 September
Final dividend paid	7 October
Written questions for the auditor close (5pm)	14 October
Proxy return close (10am)	19 October
Annual general meeting (10am)	21 October
IAG half year end	31 December

* Please note that some dates are subject to change.

TWENTY LARGEST ORDINARY SHAREHOLDERS AS AT 3 AUGUST 2015	NUMBER OF SHARES	% OF ISSUED CAPITAL
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	**412,643,845**	**16.97**
J P MORGAN NOMINEES AUSTRALIA LIMITED	**279,099,058**	**11.48**
NATIONAL NOMINEES LIMITED	**278,552,926**	**11.46**
CITICORP NOMINEES PTY LIMITED	**142,875,371**	**5.88**
NATIONAL INDEMNITY COMPANY	**89,766,607**	**3.69**
BNP PARIBAS NOMS PTY LTD <DRP>	**64,931,060**	**2.67**
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	**27,785,835**	**1.14**
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	**24,224,274**	**1.00**
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	**21,750,529**	**0.89**
AMP LIFE LIMITED	**19,672,433**	**0.81**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	**16,262,100**	**0.67**
IAG SHARE PLAN NOMINEE PTY LIMITED <IAG DAP UNALLOCATED ACCOUNT>	**12,238,282**	**0.50**
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	**8,769,159**	**0.36**
ARGO INVESTMENTS LIMITED	**6,981,075**	**0.29**
UBS NOMINEES PTY LTD	**6,669,932**	**0.27**
MILTON CORPORATION LIMITED	**5,126,282**	**0.21**
NATIONAL NOMINEES LIMITED <DB A/C>	**4,693,349**	**0.19**
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	**3,350,092**	**0.14**
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	**3,273,473**	**0.13**
SBN NOMINEES PTY LIMITED <10004 ACCOUNT>	**3,223,162**	**0.13**
Total for top 20	**1,431,888,844**	**58.88**

RANGE OF ORDINARY SHAREHOLDERS AS AT 3 AUGUST 2015	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**448,701**	**236,287,533**	**9.72**
1,001-5,000	**280,605**	**496,080,439**	**20.40**
5,001-10,000	**13,392**	**92,343,001**	**3.80**
10,001-100,000	**4,942**	**101,392,433**	**4.17**
100,001 and over	**184**	**1,505,281,249**	**61.91**
Total	**747,824**	**2,431,384,655**	**100.00**
Shareholders with less than a marketable parcel of 85 shares as at 3 August 2015	**8,575**	**275,401**	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	Fully franked	13 cents	$5.9916	1 April 2015
Ordinary	Final	Fully franked	16 cents	*	7 October 2015

* The DRP issue price for the final dividend is scheduled to be announced on 28 September 2015.

SUBSTANTIAL SHARE HOLDINGS AS AT 3 AUGUST 2015

As at 3 August 2015 there were no substantial shareholders holding more than 5.00% of the issued capital.

IAGPC CONVERTIBLE PREFERENCE SHARES INFORMATION

IMPORTANT DATES*	2015
Record date for dividend	23 October
Dividend paid	2 November

* Please note that some dates are subject to change.

TWENTY LARGEST CONVERTIBLE PREFERENCE SHAREHOLDERS AS AT 3 AUGUST 2015	NUMBER OF SHARES	% OF ISSUED CAPITAL
J P MORGAN NOMINEES AUSTRALIA LIMITED	**663,543**	**17.58**
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	**270,607**	**7.17**
NATIONAL NOMINEES LIMITED	**199,044**	**5.27**
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	**153,640**	**4.07**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	**88,581**	**2.35**
CITICORP NOMINEES PTY LIMITED <DPSL>	**83,599**	**2.22**
AUSTRALIAN MASTERS YIELD FUND NO 3 LIMITED	**79,750**	**2.11**
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	**61,147**	**1.62**
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	**59,682**	**1.58**
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	**43,392**	**1.15**
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	**30,000**	**0.79**
BNP PARIBAS NOMS PTY LTD <DRP>	**22,931**	**0.61**
QUESTOR FINANCIAL SERVICES LIMITED <TPS PIP A/C>	**22,405**	**0.59**
EDSGEAR PTY LIMITED	**20,977**	**0.56**
THE TRUST COMPANY SUPERANNUATION LIMITED <GPMSF2 - FUTURE SUPER A/C>	**16,434**	**0.44**
THE WYATT BENEVOLENT INSTITUTION INC	**15,517**	**0.41**
CITICORP NOMINEES PTY LIMITED	**13,277**	**0.35**
UBS NOMINEES PTY LTD	**12,908**	**0.34**
PCI PTY LTD	**12,350**	**0.33**
JGW INVESTMENTS PTY LTD	**10,020**	**0.27**
Total for top 20	**1,879,804**	**49.81**

RANGE OF CONVERTIBLE PREFERENCE SHAREHOLDERS AS AT 3 AUGUST 2015	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**3,672**	**1,188,875**	**31.51**
1,001-5,000	**270**	**569,460**	**15.09**
5,001-10,000	**18**	**135,589**	**3.59**
10,001-100,000	**16**	**592,970**	**15.71**
100,001 and over	**4**	**1,286,834**	**34.10**
Total	**3,980**	**3,773,728**	**100.00**
Shareholders with less than a marketable parcel of 5 shares as at 3 August 2015	**2**	**2**	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
Preference	Interim	Fully franked	$2.3223	1 May 2015
Preference	Final	Fully franked	$2.2210	2 November 2015

CORPORATE DIRECTORY

SHARE REGISTRY

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED
GPO Box 4709
Melbourne VIC 3001
Australia

Hand deliveries to
Level 4
60 Carrington Street
Sydney NSW 2000

Telephone
(within Australia) 1300 360 688
(outside Australia) +61 (0)3 9415 4210

Fax
(general) +61 (0)3 9473 2470

Email
iag@computershare.com.au

REGISTERED OFFICE

INSURANCE AUSTRALIA GROUP LIMITED
Level 26
388 George Street
Sydney NSW 2000
Australia

Telephone
+61 (0)2 9292 9222

Fax
+61 (0)2 9292 8072

Website
www.iag.com.au

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All information about IAG's 2015 financial performance is available online at www.iag.com.au/reportingcentre/2015/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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IAG
Insurance Australia Group

Australia

NRMA Insurance | SGIO | SGIC | RACV [1] | CGU | Swann Insurance | WFI | Coles Insurance [2]

New Zealand

State | AMI Insurance | NZI | Lumley Insurance

Asia

Safety Insurance [3] | NZI [3] | AmAssurance [4] | Kurnia Insurans [4] | SBI General Insurance [5] | 渤海保险 Bohai Insurance [6] | AAA Assurance [7] | Asuransi Parolamas [8]

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 owns 100% of WFI Insurance Ltd (WFI), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with WFI.
3 IAG holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.
4 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.
5 IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.
6 IAG owns 20% of Bohai Property Insurance Company Ltd, based in China.
7 IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.
8 IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.
All ownership percentages are as at 30 June 2015.