INSURANCE AUSTRALIA GROUP LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2013

APPENDIX 4D (ASX Listing rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	31 December 2013 $m	31 December 2012 $m
Revenue from ordinary activities	Up	15.6 %	**6,218**	5,377
Net profit/(loss) after tax from continuing operations attributable to equity holders of the Parent	Down	0.2 %	**642**	643
Net profit/(loss) after tax from discontinued operation attributable to equity holders of the Parent	Down	100.0 %	**-**	(182)
Net profit/(loss) attributable to IAG shareholders	Up	39.3 %	**642**	461

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

INTERIM DIVIDEND DATE	
Record date	5 March 2014
Payment date	2 April 2014

The Company's Dividend Reinvestment Plan (DRP) will operate by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 5 March 2014. The DRP Issue Price will be based on a volume weighted average share price for a 10 day trading window from 10 March 2014 to 21 March 2014 inclusive.

Eligible shareholders may now lodge their DRP elections electronically by logging on to IAG's website at www.iag.com.au/shareholder/manage/index.shtml.

Additional Appendix 4D disclosure requirements can be found in the half year financial report of Insurance Australia Group Limited for the period ended 31 December 2013 (Attachment A). This report is also to be read in conjunction with the annual report of Insurance Australia Group Limited for the year ended 30 June 2013 and any public announcements made by Insurance Australia Group Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The report is based on the consolidated half year financial statements which have been reviewed by KPMG.

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2013

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

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DIRECTORS' REPORT

The Directors present their report together with the Consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the half year ended 31 December 2013 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
The Company's directors in office at any time during or since the end of the half year are as follows. Directors were in office for the entire period unless otherwise stated.

Brian Schwartz (Director since 1 January 2005), Yasmin Allen (Director since 10 November 2004), Peter Bush (Director since 7 December 2010), Alison Deans (Director since 1 February 2013), Hugh Fletcher (Director since 1 September 2007), Raymond Lim (Director since 1 February 2013), Dr Nora Scheinkestel (Director since 1 July 2013), Philip Twyman (Director since 9 July 2008) and Michael Wilkins (Director since 26 November 2007).

PRINCIPAL ACTIVITIES
The principal continuing activities of the Group are the underwriting of general insurance and related corporate services and investing activities. The Group reports its results under the following business division headings:
- Australia Direct insurance – comprises insurance products distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands as well as via a distribution relationship and underwriting joint venture with Royal Automobile Club of Victoria (RACV) Limited;
- Australia Intermediated insurance - comprises insurance products primarily sold under the CGU and Swann Insurance brands through insurance brokers, authorised representatives and distribution partners;
- New Zealand insurance - comprises the general insurance business underwritten through subsidiaries in New Zealand. Insurance products are predominantly sold directly to customers under the State and AMI brands, and through intermediaries such as brokers and agents using the NZI brand. Personal and commercial products are also distributed by corporate partners, such as large financial institutions, using third party brands;
- Asia insurance - comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand and Vietnam and the share of the operating result from the investment in associates in Malaysia, India and China. The businesses offer personal and commercial insurance products through local brands; and
- Corporate and Other - comprises other activities, including corporate services, funding costs on the Group's interest bearing liabilities, inwards reinsurance from associates, investment management and investment of the shareholders' funds. The results of the run off of the Alba Group are also included.

OPERATING AND FINANCIAL REVIEW
OPERATING RESULT FOR THE HALF YEAR
IAG has delivered a strong performance in the opening half of the 2014 financial year, building on the momentum evident in prior periods. The Group's profit after tax for the half year was $676 million (31 December 2012-$521 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the equity holders of the Parent was $642 million. This compares to $461 million in the corresponding period in 2013, which included a loss of $182 million in respect of the discontinued UK business.

The progressive improvement in performance reflects the Group's strict adherence to a clearly delineated and sharply focused strategy. In the latest half, this improvement has been derived from a number of sources, including:
- prior period rating actions to recover increased input costs;
- application of strict underwriting disciplines; and
- realisation of cost efficiencies through leveraging of scale and implementation of improvement programs.

For the six month period to 31 December 2013, the Group recorded:
- strong operating performances for each of the business divisions in Australia and New Zealand;
- a small profit from the Asia division, which remains on track to achieve its longer term financial goals;
- sound gross written premium (GWP) growth of 4.2% on the corresponding prior half year period, which is lower than immediately preceding periods, and includes the previously foreshadowed reduced need to recover higher input costs, notably reinsurance; and
- investment income on shareholders' funds, of $242 million (31 December 2012-$207 million), which reflected strong equity market conditions.

The Group has produced a further improvement in its underlying performance, building on the strong results and improving trend evident in prior periods. An underlying margin of 13.7% compares with 12.1% in the six month period to 31 December 2012, and 12.6% in the second half of the 2013 financial year.

IAG defines its underlying margin as the reported insurance margin adjusted for:
- net natural peril claim costs less related allowance for the period;
- reserve releases in excess of 1% of net earned premium (NEP); and
- credit spread movements.

				CONSOLIDATED
		31 December 2013		31 December 2012
INSURANCE MARGIN	**$m**	**%**	$m	%
Reported insurance margin*	**758**	**17.5**	815	19.9
Net natural peril claim costs less allowance	**15**	**0.4**	(177)	(4.4)
Reserve releases in excess of 1% of NEP	**(144)**	**(3.3)**	(49)	(1.2)
Credit spread movements	**(39)**	**(0.9)**	(90)	(2.2)
Underlying insurance margin	**590**	**13.7**	499	12.1

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

A. AUSTRALIA DIRECT

I. Premiums

Australia Direct's GWP increased by 0.7% to $2,279 million (31 December 2012-$2,264 million), representing 48% of the Group's GWP. The lower level of growth compared to recent periods was largely a function of:
- reduced need to recover higher input costs, notably reinsurance, particularly in respect of the home portfolio;
- cessation of Victorian FSL collection from 1 July 2013 (31 December 2012-$36 million);
- a relative absence of rate increases in motor;
- accelerated loss of Queensland CTP volume, following the announcement in August 2013 of the decision to exit this market;
- reduced ACT CTP market share, following the entry of competition from mid-July 2013; and
- continued remediation of the Retail Business Insurance (RBI) book.

II. Reinsurance expense

Reinsurance expense of $287 million in the first half of the current financial year was more than double that of the corresponding half in the prior financial year (31 December 2012-$134 million). The primary factor behind this increase was the initiation of the CTP quota share agreement from 1 July 2013 which resulted in a reinsurance expense of $136 million in the current half year period.

III. Claims

Australia Direct has reported a slightly lower loss ratio of 65.6% in the first half of the current financial year (31 December 2012-66.4%), influenced by the following contrasting movements:
- a notably higher net natural peril claim cost, in excess of related allowance, compared to the particularly benign experience in the first half of the prior financial year; and
- significantly higher prior period reserve releases.

IV. Expenses

Australia Direct's total expenses in the six month period to 31 December 2013 amounted to $368 million (31 December 2012-$378 million), a reduction of 2.6% on the first half of the prior financial year. This equates to a slightly improved overall expense ratio of 18.2% (31 December 2012-18.3%), which has been derived from the following mix of influences:
- a reduction in underwriting expense stemming from the exchange commission payable by the reinsurance counterparty as part of the CTP quota share agreement;
- expenditure associated with ongoing investment in initiatives to improve customer service, product design and people development; and
- lower levies from the cessation of Victorian FSL.

V. Insurance profit

Australia Direct has reported an insurance profit for the six month period to 31 December 2013 of $409 million, compared to $453 million in the six month period to 31 December 2012, producing an insurance margin of 20.1% (31 December 2012-21.9%). The slightly lower reported margin compared to the first half of the prior financial year reflects the combination of:
- a sound improvement in underlying business performance;
- a $133 million increase in net natural peril claim costs;
- a reduced favourable credit spread impact of $25 million (31 December 2012-$58 million); and
- significantly higher prior period reserve releases of $127 million (31 December 2012-$53 million).

B. AUSTRALIA INTERMEDIATED (CGU)

I. Premiums

CGU's GWP increased by 1.8% to $1,459 million for the six month period to 31 December 2013, compared to first half of the previous financial year (31 December 2012-$1,433 million). This represents 30% of the Group's GWP.

The outcome reflects growth in most areas of the business and was sourced from a mixture of rate and volume. Net growth in the first half of the current financial year has primarily come from a combination of:

- continued growth in workers' compensation driven by a combination of new business and ongoing wage growth;
- volume gains, most notably in personal lines, commercial small to medium sized enterprises (particularly residential strata) and some specialty lines products (notably professional risks);
- low to mid-single digit rate increases across most products;
- cessation of the Victorian FSL from 1 July 2013, which accounted for $41 million of GWP in the first half of the prior financial year;
- broadly flat fleet GWP, while commercial motor contracted by around 11%; and
- lower rate increases than in the previous two years as the need to recover higher input costs has abated.

II. Reinsurance expense

CGU's reinsurance expense in the six month period to 31 December 2013 of $117 million is slightly lower than that of the first half of the prior financial year (31 December 2012-$124 million). This reflects the combination of:

- higher catastrophe cover costs;
- additional cost associated with aggregate exposure growth; and
- a more than offsetting reduction from de-risking of the book in peril prone areas, as mirrored by a slight reduction in natural peril allowance.

III. Claims

The reported loss ratio for the six month period to 31 December 2013 was 50.2%, compared to 46.7% in the six month period to 31 December 2012, with the movement explained largely by:

- $31 million of higher net natural peril claim costs;
- $22 million of lower reserve releases; and
- a partially offsetting improvement in underlying claims performance.

IV. Expenses

Reported expenses totalled $486 million in the six month period to 31 December 2013, a 6.8% increase on the first half of the prior financial year (31 December 2012-$455 million). This translates to a similar expense ratio of 34.8%, compared to the first half of the prior financial year (31 December 2012-34.9%). The increase in expenditure includes:

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

These increases have been offset by:

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

V. Insurance profit

CGU reported an insurance profit of $248 million, a decrease against the first half of the prior financial year (31 December 2012-$301 million). This equates to a lower reported insurance margin of 17.8% (31 December 2012-23.1%).

The reduced reported margin in the first half of the current financial year reflects the impact of lower reserve releases, a reduction in favourable credit spread effect and higher net natural peril claim costs.

VI. Fee based business/share of associates

CGU generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes that are underwritten by the respective state governments. In the six month period to 31 December 2013, net income from fee based operations was $11 million, compared to $12 million in the six month period to 31 December 2012.

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

C. NEW ZEALAND

I. Premiums

Reported GWP increased by 17.7% to $884 million, reflecting the favourable exchange rate movement since the first half of the previous financial year (31 December 2012-$751 million). New Zealand now represents 18% of the Group's GWP. In local currency terms, GWP increased by 4.7%.

All distribution channels reported GWP growth in the six month period to 31 December 2013. GWP growth was mainly driven by further rate increases in the domestic home owners' portfolio across all channels to recover higher reinsurance costs and appropriately price for risk. A continued focus on customer and sales initiatives has also contributed to the overall outcome, with all channels reporting improved volumes compared to the six month period to 31 December 2012.

II. Reinsurance expense

Reinsurance expense of $140 million was 24% above that of the first half of the previous financial year (31 December 2012-$113 million). This reflects higher catastrophe cover costs as a result of increased regulatory requirements and the Canterbury earthquakes.

III. Claims

The current half year period net claims expense of $387 million (31 December 2012-$399 million) produced a loss ratio of 52.3%, a notable improvement on the same period last year (31 December 2012-63.7%). This outcome embraced the combined effect of:

- an absence of the net reserve strengthening experienced in the prior half year period;
- favourable underlying claims activity predominantly driven by low frequency; and
- significantly higher net natural peril claim costs of $49 million (31 December 2012-$11 million).

IV. Expenses

Total reported expenses of $229 million in the current half year period rose by nearly 32% compared to the first half of the prior financial year (31 December 2012-$174 million). In local currency terms the increase was 17%. The total expense ratio increased to 31.0%, compared to the first half of the prior financial year (31 December 2012-27.8%). The higher cost base is explained by:

- the absence of the $6m net benefit in 1H13 arising from the introduction of deferred acquisition cost (DAC) accounting in AMI;
- residual AMI integration costs of $3m, which in prior periods were borne in the Group's net corporate expense line;
- increased costs stemming from investment in process improvement and technology initiatives; and
- expenditure associated with increased regulatory requirements.

V. Insurance profit

The New Zealand business produced an insurance profit of $92 million in the current half year period, an improvement on the corresponding prior year period (31 December 2012-$52 million). This equates to a reported insurance margin of 12.4% (31 December 2012-8.3%).

The improvement in the reported insurance margin has been driven by the absence of any significant net reserve strengthening in the six month period to 31 December 2013 and continued focus on operational improvements across the business, including synergies realised from the AMI integration. An offsetting factor has been the higher incidence of net natural peril claim costs.

D. ASIA

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

I. Premiums

GWP from the Group's controlled entities has increased by 12% from $137 million in prior half year period to $154 million in the current half year period, with $14 million of the increase a result of IAG's consolidation of the results of AAA Assurance in Vietnam with effect from July 2013.

- The Thai business (Safety Insurance) accounts for 91% of Asia GWP (31 December 2012-100%) and reported GWP growth of 2% in the current half year period, compared to the first half of the previous financial year, assisted by favourable foreign exchange movements. Since 2012, Safety Insurance has established itself as the third largest motor insurer in Thailand.

II. Insurance profit

The insurance profit delivered by the controlled entities for both the current and prior half year period was predominantly sourced from Thailand (Safety Insurance).

- Safety Insurance reported an improved insurance profit of $15 million for the current half year period (31 December 2012-$9 million) before development costs.
- The Thai business has continued to perform well. The insurance margin of 8.8% for the six month period to 31 December 2013 was in line with that of the first half of the prior financial year (31 December 2012-8.8%), and included:
  - a slightly higher loss ratio of 61.3% (31 December 2012-59.8%);
  - lower investment income, reflecting the absence of the favourable investment revaluation triggered by an interest rate cut in the first half of the 2013 financial year; and
  - a partial offset from improved commission and underwriting expense control.
- AAA Assurance's insurance result in the half year period to 31 December 2013 improved to a modest profit before allocated costs.

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

The Group's share of associates was a profit of $6 million (31 December 2012-$6 million), excluding allocated costs, for the half year period to 31 December 2013, which includes AmGeneral in Malaysia, SBI General Insurance Company in India, and Bohai Property Insurance Company Ltd in China. AmGeneral accounts for the majority of the Group's share of net profit/(loss) from associates.

- AmGeneral has continued to perform strongly, with the overall result boosted by a full six months contribution from Kurnia in the first half of the current financial year, compared to three months in the first half of the 2013 financial year.
- IAG's share of AmGeneral's profit in the six month period to 31 December 2013 was a profit of $12 million (31 December 2012-$10 million).
- Modest losses were recognised from the developing businesses in India and China.

IV. Regional support and development costs

- The regional support and development costs are self-funded within the division and, for reporting purposes, are allocated between the consolidated businesses (Thailand and Vietnam) and shares of associates (Malaysia, India and China).
- Total regional support and development costs for the six month period to 31 December 2013 increased to $14 million (31 December 2012-$12 million) owing to greater capability support in driving an operational excellence strategy and enhancing risk management and governance in existing Asian businesses.

E. CORPORATE AND OTHER

Revenue has increased from $209 million in the first half of the prior financial year to $245 million in the first half of the current financial year, mainly due to higher investment income on shareholders' funds net of finance and other costs, which resulted in a profit before tax of $174 million for the current six month period.

Further details on the operating segments are set out in the segment note.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 31 December 2013 were $26,518 million compared to $24,859 million at 30 June 2013. Notable movements within the $1,659 million increase are:

- an approximate $1.2 billion increase in investments, in line with the institutional placement completed in December 2013 to contribute toward funding of the proposed acquisition of the Wesfarmers underwriting businesses;
- a $327 million increase in deferred outwards reinsurance expense following completion of the calendar 2014 catastrophe renewal and commencement of the CTP quota share within Australia Direct;
- a $183 million increase in reinsurance and other recoveries as a result of commencement of the CTP quota share agreement within Australia Direct and foreign exchange movements; and partially offset by
- an $87 million reduction in assets in respect of the discontinued UK operation, to $9 million, following settlement of the majority of the outstanding associated pension funds.

The total liabilities of the Group as at 31 December 2013 were $20,238 million, compared to $19,871 million at 30 June 2013. The $367 million increase over the period includes the following notable movements:

- a $465 million increase in the reinsurance premium creditor, largely reflecting the increase in reinsurance payable following completion of the calendar 2014 catastrophe renewal and commencement of the CTP quota share within Australia Direct;
- a $168 million increase in the outstanding claims liability mainly due to NZD foreign exchange movements; and partially offset by
- a reduction in current tax liabilities of $110 million; and
- an $83 million reduction in liabilities in respect of the discontinued UK operation, to $23 million, following settlement of the majority of the outstanding associated pension fund liabilities.

IAG shareholders' equity (excluding non-controlling interests) increased, from $4,786 million at 30 June 2013 to $6,078 million at 31 December 2013. This movement reflects the effect of:

- completion of the institutional placement in December 2013, which raised $1.2 billion;
- a strong operating earnings performance in the six month period to 31 December 2013; and partially offset by
- payment of the 25 cents per share final dividend declared in respect of the 2013 financial year ($519 million).

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the six month period to 31 December 2013 were $475 million compared to $942 million for the six month period to 31 December 2012. The decrease is mainly attributable to:

- a decrease totalling $218 million from a combination of movements in gross premium receipts, interest receipts, and reinsurance and other recoveries primarily due to the sale of the UK; and
- an increase in the outward reinsurance premium paid of $195 million due to the timing of quarterly catastrophe reinsurance instalments.

C. INVESTMENTS

- The Group's investments totalled $14.8 billion as at 31 December 2013, excluding investments held in joint ventures and associates, with nearly 63% represented by the technical reserves portfolio. Total investments at 30 June 2013 were $13.6 billion.
- The $1.2 billion increase in investment assets since 30 June 2013 relates to shareholders' funds. This predominantly reflects funds from the $1.2 billion institutional placement undertaken in December 2013 to partially fund the proposed acquisition of Wesfarmers' insurance underwriting businesses in Australia and New Zealand.
- Technical reserves at 31 December 2013 were at a similar level to 30 June 2013.
- The credit quality of the Group's investment book is high, with 89% of the fixed interest and cash portfolio rated in the 'AA' category or better.

D. INTEREST BEARING LIABILITIES
The Group's interest bearing liabilities stood at $1,696 million at 31 December 2013, compared to $1,620 million at 30 June 2013. The increase solely reflects foreign exchange translation effects in respect of the NZD and GBP instruments.

As indicated at the time of the announcement of the proposed acquisition of Wesfarmers' insurance underwriting business, the Company intends to issue $300 million of Tier 2 subordinated debt as part of the funding for this transaction. It is anticipated that this will occur in the second half of the 2014 financial year.

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 31 December 2013, the Group's capital mix was outside the targeted ranges, with debt and hybrids representing 28.3% of total tangible capitalisation. This temporary effect reflects the $1.2 billion institutional equity placement undertaken in December 2013 to partially fund the proposed acquisition of Wesfarmers' insurance underwriting businesses.

Once the transaction and all aspects of the intended funding are complete, it is anticipated that the Group's capital mix will stand at the upper end of the targeted 30-40% range.

F. CAPITAL MANAGEMENT
The Group remains strongly capitalised under Life and General Insurance Capital (LAGIC), and has set the following related targeted benchmarks:
- a total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of 1.0 times; and
- a Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

At 31 December 2013, the Group had regulatory capital of $5,643 million (30 June 2013-$4,262 million), a PCA multiple of 2.31 (30 June 2013-1.67), and its CET1 multiple was 1.71 (30 June 2013-1.09). The movement in the capital ratios is primarily due to the $1.2 billion institutional equity placement undertaken in December 2013.

STRATEGY
A. STRATEGIC PRIORITIES
I. Accelerate profitable growth in Australia
IAG remains focused on leveraging its strong brands, customer bases and strategic capabilities in Australia. Combined GWP growth from the two Australian-based businesses was nearly 3.3% in the six month period to 31 December 2013, on an ex-Victorian FSL basis.

Australia Direct recorded an improved underlying margin as NSW CTP pressures eased. GWP growth was 2.3% on an ex-Victorian FSL basis. The business' ongoing focus on customer insights, pricing capability and preferred risk areas is helping maintain strong returns.

CGU has sustained an underlying margin of double digit proportions. CGU's performance continues to reflect the benefits from enhanced underwriting disciplines and the implementation of a new operating model. GWP growth was 4.8% on an ex-Victorian FSL basis.

The proposed acquisition of the Wesfarmers underwriting business in Australia is expected to deliver intermediated market leadership to CGU. Significant long term earnings accretion is expected given the highly complementary nature of the two businesses. Completion of the transaction is expected in the second quarter of calendar 2014, subject to regulatory approvals.

II. Sustain leading position in New Zealand
In New Zealand the Group's focus is on securing and maintaining its market-leading position. In the six month period to 31 December 2013 the business continued to achieve a strong underlying performance, with the integration of AMI nearing completion and progressing to plan. Solid local currency GWP growth of 4.7% was also recorded.

The proposed acquisition of the Wesfarmers underwriting business in New Zealand is expected to further secure the Group's market-leading position, while also enabling a greater balance between the direct and intermediated arms of the business. As with its Australian counterpart, Wesfarmers' New Zealand underwriting business is highly complementary to that of IAG. Completion of the transaction is expected in the second quarter of calendar 2014, subject to regulatory approvals.

III. Realise the potential of Asian platform

The Group's businesses in Asia are progressing to plan, as it transitions to a phase of driving operational development and enhancing risk management and governance. This follows the Group's commitment of increased capability to the region to ensure the potential of the broader Asian platform is realised over the medium to longer term. Asia produced a small positive contribution to Group earnings in the six month period to 31 December 2013, despite bearing increased regional support and development costs of $14 million (31 December 2012-$12 million).

Asian GWP increased to 7.1% of Group GWP on a proportional basis in the six month period to 31 December 2013, compared to the Group's goal of it representing 10% of GWP by 2016. This goal excludes any consideration of the impact of the acquisition of the Wesfarmers underwriting businesses. The latest half benefited from a full six-month contribution from Kurnia Insurans (Malaysia) Berhad, via IAG's highly profitable Malaysian joint venture, AmGeneral.

IV. Customer focused delivery and execution

Customer focus continues to be a key strategic pillar for the Group, and significant work has been completed in the first half of the current financial year to develop new ways for Group businesses to lead their markets in delivering superior customer experiences and value.

The Group continues to take a leadership role in protecting customers and making communities safer through its participation in the Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable). Launched in June 2013, the recommendations of the Roundtable's White Paper, Building our Nation's Resilience to Natural Disasters, have been well received by government and were referenced in the 2013 Senate Inquiry into Extreme Weather Events and the December 2013 Federal Government announcement that a Productivity Commission Inquiry into Natural Disaster Funding Arrangements would be established in 2014. The Roundtable also made a submission to the National Commission of Audit in November 2013.

As part of its Leaders in Risk project, the Group has explored new initiatives to improve safety on the road and in the home. The Group is also examining ways to improve the resilience of small-to-medium-sized businesses. In addition to its leadership role on the Roundtable, the Group is exploring ways to maximise the impact of its natural disaster response and recovery programs.

V. Leverage cultural strengths

The Group recognises the importance of attracting and retaining the best leaders and talent in the industry. Our goal is for career development of our people to be a key source of differentiation between IAG and its peers. The Group is also working actively to leverage its cultural strengths, including driving a set of core values and behaviours.

B. BUSINESS RISK AND RISK MANAGEMENT

Managing risk is central to the sustainability of IAG's business and delivery of value to shareholders. IAG's risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The risk management strategy (RMS) is reviewed annually or as required by the IAG Risk Management & Compliance Committee (RMCC) before being recommended for adoption by the Board. IAG's risk and governance function provides regular reports to the RMCC 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, the operation of risk management and other audit related matters. Roles and responsibilities of the Board and its standing committees, the RMCC, AC and the People and Remuneration Committee (PARC), are available on 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, which may impact the Group's ability to meets its liabilities;
- reinsurance risk: the risk of insufficient reinsurance coverage and/or inadequate reinsurance recovery management;
- financial risks:
  - liquidity risk: the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Group;
  - market risk: the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments;
  - credit risk: the risk of loss from a counterparty failing to meet their financial obligations; and
  - capital management risk: the risk of failure to maintain adequate regulatory capital to meet the prudentially required capital levels or the Group's internal capital target.
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

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

Detail of the Group's overall risk management framework, which is outlined in the RMS, is set out in the Corporate Governance section, and notes 3 and 4 of the 30 June 2013 Annual Report.

OUTLOOK

The Group expects to record a strong full year performance and has reaffirmed the updated guidance for the 2014 financial year provided on 23 January 2014, of:

- GWP growth of 3-5%; and
- a reported insurance margin in the range of 14.5-16.5%.

The Group's GWP growth outlook encompasses sound underlying business growth. Reported GWP growth in the 2014 financial year will be influenced by:

- reduced need for rate increases, particularly in property classes, to recover higher input costs, notably reinsurance;
- the cessation of GWP associated with the Victorian FSL from 1 July 2013, which represents a drag of over 1% on a full year basis (30 June 2013-$104 million of GWP);
- Australia Direct's decision to withdraw from the Queensland CTP market with effect from 1 January 2014 (30 June 2013-$56 million of GWP); and
- a partially compensating favourable foreign exchange translation effect, notably in respect of New Zealand.

Assumptions behind the reported margin guidance range of 14.5-16.5% are:

- net losses from natural perils in line with allowance of $640 million;
- prior period reserve releases equivalent to around 3% of NEP; and
- no material movement in foreign exchange rates or investment markets in the second half of the current financial year.

The Group expects to report a similar underlying margin in the second half of the current financial year to that produced in the period to 31 December 2013.

The guidance for the 2014 financial year assumes no contribution from the proposed acquisition of the Wesfarmers insurance underwriting businesses.

DIVIDENDS

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

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; and
- excluding any unusual items.

		CONSOLIDATED
	31 December 2013	31 December 2012
CASH EARNINGS	**$m**	$m
Net profit after tax	**642**	461
Intangible amortisation and impairment	**10**	26
	652	487
Unusual items:		
Corporate expenses	**1**	21
Tax effect on corporate expenses	**-**	(6)
Net loss after tax from discontinued operation	**-**	182
Cash earnings	**653**	684
Interim dividend	**304**	229
Cash payout ratio	**46.6%**	33.5%

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

The Board has determined to pay a fully franked interim dividend of 13.0 cents per ordinary share (31 December 2012-11.0 cps). The interim dividend is payable on 2 April 2014 to shareholders registered as at 5pm on 5 March 2014.

The dividend reinvestment plan (DRP) will operate for the interim dividend. The issue price per share for the interim dividend will be the volume weighted average share price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at www.iag.com.au/shareholder/reinvestment/index.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period the following changes became effective:

- on 24 July 2013 the Group acquired a 60.9% controlling interest (increased to 63.17% during the current half year period) in AAA Assurance Corporation (AAA). Accordingly, the operating results, assets and liabilities of AAA are consolidated from this date.
- on 16 December 2013, the Consolidated entity entered into an arrangement to purchase the insurance underwriting businesses of Wesfarmers Limited in Australia and New Zealand for $1.845 billion. The acquisition remains subject to regulatory approvals. To fund the proposed acquisition, during December 2013 the Group raised $1.2 billion in ordinary share capital through a fully underwritten institutional placement, comprising the issue of approximately 219 million ordinary shares at $5.47 per share. It remains the Group's expectation that completion of the acquisition will occur in the second quarter of calendar 2014. The proposed acquisition comprises Wesfarmers' underwriting companies trading under the WFI and Lumley Insurance brands, as well as a ten-year distribution agreement with Coles. The acquisition supports the Group's strategic priorities of accelerating profitable growth in Australia and sustaining its market-leading position in New Zealand.
- on 1 October 2013 the Group appointed J Breheny to the newly created position of Group Chief Risk Officer. Subsequently the Group established separate Audit and Risk Committees. Roles and responsibilities are available on the IAG website.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the half year is set out in note 15. This includes:

- the Board determined to pay an interim dividend; and
- on 3 February 2014 the Group completed the issue of $236 million of ordinary share capital through a Share Purchase Plan at $5.47 per ordinary share.

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

The lead auditor's independence declaration is set out on page 10 and forms part of the directors' report for the half year ended 31 December 2013.

Signed at Sydney this 21st day of February 2014 in accordance with a resolution of the directors.

Michael Wilkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2013 there have been:

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

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
21 February 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	NOTE	CONSOLIDATED	
		31 December 2013	31 December 2012
		$m	$m
Premium revenue		**4,885**	4,494
Outwards reinsurance premium expense		**(565)**	(399)
Net premium revenue (i)		**4,320**	4,095
Claims expense		**(3,413)**	(2,819)
Reinsurance and other recoveries revenue		**905**	383
Net claims expense (ii)		**(2,508)**	(2,436)
Acquisition costs		**(674)**	(600)
Other underwriting expenses		**(339)**	(277)
Fire services levies		**(128)**	(168)
Underwriting expenses (iii)		**(1,141)**	(1,045)
Underwriting profit/(loss) (i) + (ii) + (iii)		**671**	614
Investment income on assets backing technical reserves		**98**	211
Investment expenses on assets backing technical reserves		**(11)**	(10)
Insurance profit/(loss)		**758**	815
Investment income on shareholders' funds		**242**	207
Fee and other income		**96**	92
Share of net profit/(loss) of associates		**(8)**	(10)
Finance costs		**(47)**	(50)
Fee based, corporate and other expenses		**(91)**	(120)
Net income/(loss) attributable to non-controlling interests in unitholders' funds		**(8)**	(4)
Profit/(loss) before income tax from continuing operations		**942**	930
Income tax (expense)/credit		**(266)**	(227)
Profit/(loss) after tax from continuing operations		**676**	703
Profit/(loss) after tax from discontinued operation	10	**-**	(182)
Profit/(loss) for the period		**676**	521
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans		**26**	12
Income tax on items that will not be reclassified to profit or loss		**(8)**	(5)
		18	7
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve		**14**	13
Income tax on items that may be reclassified to profit or loss		**16**	2
		30	15
Other comprehensive income and (expense), net of tax		**48**	22
Total comprehensive income and (expense) for the period, net of tax		**724**	543
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO			
Equity holders of the Parent - continuing operations		**642**	643
Equity holders of the Parent - discontinued operation		**-**	(182)
Non-controlling interests		**34**	60
Profit/(loss) for the period		**676**	521
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE PERIOD ATTRIBUTABLE TO			
Equity holders of the Parent - continuing operations		**690**	668
Equity holders of the Parent - discontinued operation		**-**	(185)
Non-controlling interests		**34**	60
Total comprehensive income and (expense) for the period, net of tax		**724**	543

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE		CONSOLIDATED
		31 December 2013	31 December 2012
		cents	cents
EARNINGS PER SHARE - continuing and discontinued operations			
Basic earnings per ordinary share	4	**30.88**	22.30
Diluted earnings per ordinary share	4	**29.56**	21.54
EARNINGS PER SHARE - continuing operations			
Basic earnings per ordinary share	4	**30.88**	31.10
Diluted earnings per ordinary share	4	**29.56**	29.89

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

BALANCE SHEET
AS AT 31 DECEMBER 2013

	NOTE	CONSOLIDATED	
		31 December 2013	30 June 2013
		$m	$m
ASSETS			
Cash held for operational purposes		**360**	394
Investments	6	**14,803**	13,616
Premium receivable		**2,673**	2,712
Trade and other receivables		**638**	526
Assets discontinued operation	10	**9**	96
Reinsurance and other recoveries on outstanding claims		**3,041**	2,858
Deferred levies and charges		**112**	151
Deferred outwards reinsurance expense		**869**	542
Deferred acquisition costs		**797**	795
Deferred tax assets		**310**	401
Property and equipment		**261**	257
Investment in joint ventures and associates	11	**585**	577
Intangible assets		**288**	245
Goodwill		**1,704**	1,666
Other assets		**68**	23
Total assets		**26,518**	24,859
LIABILITIES			
Trade and other payables		**1,206**	1,263
Reinsurance premium payable		**916**	451
Restructuring provision		**1**	6
Current tax liabilities		**143**	253
Unearned premium liability		**5,122**	5,145
Liabilities discontinued operation	10	**23**	106
Non-controlling interests in unitholders' funds		**204**	210
Employee benefits provision		**247**	305
Outstanding claims liability		**10,642**	10,474
Interest bearing liabilities	7	**1,696**	1,620
Other liabilities		**38**	38
Total liabilities		**20,238**	19,871
Net assets		**6,280**	4,988
EQUITY			
Share capital	8	**6,539**	5,353
Treasury shares held in trust		**(96)**	(62)
Reserves		**76**	63
Retained earnings		**(441)**	(568)
Parent interest		**6,078**	4,786
Non-controlling interests		**202**	202
Total equity		**6,280**	4,988

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

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
31 December 2013							
Balance at the beginning of the financial period	**5,353**	**(62)**	**28**	**35**	**(568)**	**202**	**4,988**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**642**	**34**	**676**
Other comprehensive income and (expense)	**-**	**-**	**30**	**-**	**18**	**-**	**48**
Total comprehensive income/(expense) for the period	**-**	**-**	**30**	**-**	**660**	**34**	**724**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS							
Shares issued under institutional placement, net of transaction costs	**1,186**	**-**	**-**	**-**	**-**	**-**	**1,186**
Shares acquired and held in trust	**-**	**(78)**	**-**	**-**	**-**	**-**	**(78)**
Share based payment expense recognised	**-**	**-**	**-**	**11**	**-**	**-**	**11**
Share based remuneration vested	**-**	**44**	**-**	**(28)**	**(16)**	**-**	**-**
Non-controlling interest in acquisition during the period	**-**	**-**	**-**	**-**	**-**	**8**	**8**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(519)**	**(42)**	**(561)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Balance at the end of the financial period	**6,539**	**(96)**	**58**	**18**	**(441)**	**202**	**6,280**
31 December 2012							
Balance at the beginning of the financial period	5,353	(55)	(94)	26	(887)	181	4,524
Profit/(loss) for the period	-	-	-	-	461	60	521
Other comprehensive income and (expense)	-	-	15	-	7	-	22
Total comprehensive income/(expense) for the period	-	-	15	-	468	60	543
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS							
Shares acquired and held in trust	-	(28)	-	-	-	-	(28)
Share based payment expense recognised	-	-	-	12	-	-	12
Share based remuneration vested	-	17	-	(14)	(3)	-	-
Dividends determined and paid	-	-	-	-	(249)	(35)	(284)
Dividends received on treasury shares held in trust	-	-	-	-	1	-	1
Balance at the end of the financial period	5,353	(66)	(79)	24	(670)	206	4,768

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

CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED	
	31 December 2013	31 December 2012
	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium received	**4,830**	4,899
Reinsurance and other recoveries received	**702**	780
Claims costs paid	**(3,263)**	(3,442)
Outwards reinsurance premium expense paid	**(428)**	(233)
Dividends received	**25**	21
Interest and trust distributions received	**262**	333
Finance costs paid	**(51)**	(52)
Income taxes paid	**(255)**	(238)
Other operating receipts	**528**	584
Other operating payments	**(1,875)**	(1,710)
Net cash flows from operating activities	**475**	942
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows on acquisition/capital injection to subsidiaries and associates	**(8)**	(245)
Proceeds from disposal of subsidiaries	**-**	5
Proceeds from disposal of investments and property and equipment	**6,560**	6,664
Outlays for investments and property and equipment acquired	**(6,707)**	(7,621)
Net cash flows from investing activities	**(155)**	(1,197)
CASH FLOWS FROM FINANCING ACTIVITIES		
Outlays for purchase of treasury shares	**(78)**	(28)
Proceeds from issue of trust units	**74**	98
Outlays for redemption of trust units	**(85)**	(98)
Repayment of borrowings	**-**	(79)
Dividends paid to IAG equity holders	**(519)**	(249)
Dividends paid to non-controlling interests	**(42)**	(35)
Proceeds from issue of shares, net of transaction costs	**1,186**	-
Dividends received on treasury shares	**2**	1
Net cash flows from financing activities	**538**	(390)
Net movement in cash held	**858**	(645)
Effects of exchange rate changes on balances of cash held in foreign currencies	**33**	7
Cash and cash equivalents at the beginning of the financial period	**1,716**	2,066
Cash and cash equivalents at the end of the financial period*	**2,607**	1,428

* Includes $360 million (31 December 2012-$458 million) of cash held for operational purposes, $2,238 million (31 December 2012-$903 million) of cash and short term money held for investments and $9 million (31 December 2012-$67 million) cash in discontinued operation.

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 half year financial report is for the current half year ended 31 December 2013 and consolidated financial statements for the Company and its subsidiaries (Group or Consolidated entity). The Group is a for-profit entity.

This general purpose half year financial report was authorised by the Board of Directors for issue on 21 February 2014.

This report should be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

A. STATEMENT OF COMPLIANCE

This general purpose half year financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 Interim Financial Reporting, the recognition and measurement requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the ASX Listing Rules.

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board (IASB). IFRS forms the basis of Australian Accounting Standards. This half year financial report of the Consolidated entity does not include all information required for annual financial statement presentation in accordance 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 accounting policies adopted in the preparation of this financial report have been consistently applied by all entities in the Consolidated entity and are the same as those of the previous year unless otherwise noted. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions 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.

I. Australian accounting standards issued but not yet effective

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

None of these standards have been early adopted and applied in the current reporting period.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2017	C
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2017	C
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2017	C
AASB 2012-3	Amendments to Australian Accounting Standards arising from AASB 132 - Offsetting Financial Assets and Financial Liabilities	1 January 2014	A
AASB 2012-6	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	1 January 2015	A
AASB 2013-3	Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	B
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	A
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	1 January 2014	A
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	1 January 2014	A

TABLE NOTE

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

B These changes will only impact disclosures when preparing the annual financial report.

C These changes may have a financial impact. However, the assessment is not completed yet and the impact cannot be reasonably estimated until the new standard is finalised.

II. Changes in accounting policies

There were a number of Australian Accounting Standards applicable for the current reporting period. These included:

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

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

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

III. Reclassifications of comparatives

Certain items have been reclassified from the Consolidated entity's prior half year financial report to conform to the current period's 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.

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 approach to key estimates and judgements for this reporting period is the same as the 2013 financial year, unless otherwise stated.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements are:

- insurance contracts related:
  - claims;
  - reinsurance and other recoveries on outstanding claims; and
  - liability adequacy test.

  The estimation process of the gross cash flows for the 2011 financial year natural catastrophe events in New Zealand is conducted in a similar manner to that described above, but is subject to a high degree of uncertainty owing to the unique nature of the events including the allocation of costs between the events for policies affected by multiple events, the decision process surrounding the zoning of land for rebuilding and the estimated cost of the event relative to the size of the New Zealand economy.

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

- other:
  - intangible assets and goodwill impairment testing;
  - acquired intangible assets' initial measurement and determination of useful life;
  - income tax and related assets and liabilities;
  - share based remuneration; and
  - defined benefit superannuation arrangements.

NOTE 3. SEGMENT REPORTING

The Consolidated entity has general insurance products in Australia, New Zealand and Asia. In Australia, the financial results are generated from three different divisions being Australia Direct insurance, Australia Intermediated insurance as well as Corporate and other. In the prior reporting period the United Kingdom insurance segment is classified as a discontinued operation. Refer to the discontinued operation note for further details.

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

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

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

The reportable segments comprise the following business divisions:

A. AUSTRALIA DIRECT INSURANCE

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

B. AUSTRALIA INTERMEDIATED INSURANCE

This segment provides insurance products primarily sold under the CGU and Swann Insurance brands through insurance brokers, authorised representatives and distribution partners.

C. NEW ZEALAND INSURANCE

This segment provides general insurance products, offering most of its products under the State, AMI and NZI brands.

D. ASIA INSURANCE

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

E. CORPORATE AND OTHER

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

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

CONSOLIDATED	AUSTRALIA DIRECT INSURANCE $m	AUSTRALIA INTERMEDIATED INSURANCE $m	NEW ZEALAND INSURANCE $m	ASIA INSURANCE $m	CORPORATE AND OTHER $m	TOTAL $m
31 December 2013						
External revenue	**2,777**	**1,694**	**1,358**	**144**	**245**	**6,218**
Total revenue	**2,777**	**1,694**	**1,358**	**144**	**245**	**6,218**
Underwriting profit/(loss)	**330**	**210**	**124**	**8**	**(1)**	**671**
Investment income net of investment fees - technical reserves	**79**	**38**	**(32)**	**2**	**-**	**87**
Insurance profit/(loss)	**409**	**248**	**92**	**10**	**(1)**	**758**
Investment income net of investment fees - shareholders' funds	**-**	**-**	**-**	**-**	**233**	**233**
Share of net profit/(loss) of associates	**-**	**-**	**-**	**(3)**	**(5)**	**(8)**
Finance costs	**-**	**-**	**-**	**-**	**(47)**	**(47)**
Other net operating result	**-**	**11**	**1**	**-**	**(6)**	**6**
Profit/(loss) before income tax from continuing operations	**409**	**259**	**93**	**7**	**174**	**942**
Income tax expense						**(266)**
Profit/(loss) for the year from continuing operations						**676**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**86**	**86**
Depreciation expense	**19**	**5**	**5**	**1**	**-**	**30**
Amortisation and impairment charges on acquired intangibles and goodwill	**6**	**9**	**6**	**1**	**-**	**22**
Total depreciation and amortisation expense	**25**	**14**	**11**	**2**	**-**	**52**
31 December 2012						
External revenue	2,547	1,622	907	92	209	5,377
Total revenue	2,547	1,622	907	92	209	5,377
Underwriting profit/(loss)	315	240	53	4	2	614
Investment income net of investment fees - technical reserves	138	61	(1)	2	1	201
Insurance profit/(loss)	453	301	52	6	3	815
Investment income net of investment fees - shareholders' funds	-	-	-	-	201	201
Share of net profit/(loss) of associates	-	1	-	(3)	(8)	(10)
Finance costs	-	-	-	-	(50)	(50)
Other net operating result	-	12	1	-	(39)	(26)
Profit/(loss) before income tax from continuing operations	453	314	53	3	107	930
Income tax expense						(227)
Profit/(loss) for the year from continuing operations						703
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	42	42
Depreciation expense	18	5	4	1	-	28
Amortisation and impairment charges on acquired intangibles and goodwill	5	9	16	-	-	30
Total depreciation and amortisation expense	23	14	20	1	-	58

NOTE 4. EARNINGS PER SHARE

	CONSOLIDATED 31 December 2013 cents	CONSOLIDATED 31 December 2012 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations		
Basic earnings per ordinary share*	**30.88**	22.30
Diluted earnings per ordinary share	**29.56**	21.54
Continuing operations		
Basic earnings per ordinary share*	**30.88**	31.10
Diluted earnings per ordinary share	**29.56**	29.89

* 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 31 December 2013 $m	CONSOLIDATED 31 December 2012 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the period	**676**	521
Profit/(loss) attributable to non-controlling interests	**(34)**	(60)
Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	**642**	461
Earnings used in calculating diluted earnings per share		
Finance costs of convertible securities	**10**	9
Profit/(loss) attributable to equity holders of the Parent which is used in calculating diluted earnings per share	**652**	470
Profit/(loss) from continuing operations attributable to equity holders of the Parent	**642**	643
Profit/(loss) from discontinued operation attributable to equity holders of the Parent	**-**	(182)

	CONSOLIDATED 31 December 2013 Number of shares in millions	CONSOLIDATED 31 December 2012 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	**2,090**	2,079
Weighted average number of treasury shares held in trust	**(11)**	(11)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,079**	2,068
Weighted average number of dilutive potential ordinary shares relating to		
Unvested share based remuneration rights supported by treasury shares held in trust	**11**	11
Convertible securities	**116**	100
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**2,206**	2,179

NOTE 5. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
31 December 2013					
2013 final dividend	**25.0**	**519**	**9 October 2013**	**30%**	**100%**
30 June 2013					
2013 interim dividend	11.0	229	3 April 2013	30%	100%
2012 final dividend	12.0	249	3 October 2012	30%	100%
		478			

It is standard practice that the Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy a dividend is not accrued for until the Board determines that the dividend is to be paid. Accordingly the dividends for a period are usually recognised and measured in the financial reporting period following the period to which the dividend relates.

The dividends recognised in the current reporting period include $2 million (31 December 2012-$1 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

A Dividend Reinvestment Plan (DRP) operates which allows equity holders 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 2013 final dividend payable on 9 October 2013 was settled with the on-market purchase of 18 million shares priced at $5.8619 per share (based on a daily volume weighted average price for 15 trading days from 16 September 2013 to 4 October 2013 inclusive, with no discount applied).

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

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

In addition to the above dividends, the Board determined to pay the following 2014 interim dividend after the reporting date but before finalisation of this financial report. The 2014 interim dividend has not been recognised in this financial report.

	CENTS PER SHARE	TOTAL AMOUNT $m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2014 interim dividend	**13.0**	**304**	**2 April 2014**	**30%**	**100%**

On 21 February 2014 the Board determined the interim dividend will be payable to shareholders on 2 April 2014.

The Company's DRP will operate by issuing ordinary shares to participants by acquiring shares on-market with an issue price per share of the volume weighted average share price as defined in DRP terms with no discount applied. The last election notice for participation in the DRP in relation to this interim dividend is 5 March 2014.

NOTE 6. INVESTMENTS

A. 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.

I. Level 1 quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. Level 3 investments are primarily unlisted private equity funds where the fair value of investments is determined on the basis of published redemption values of those funds received from the relevant managers who themselves use various methods to value the underlying investments.

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement.

	LEVEL 1 $m	LEVEL 2 $m	LEVEL 3 $m	CONSOLIDATED TOTAL $m
31 December 2013				
Interest bearing investments	**5,640**	**7,643**	**-**	**13,283**
Equity investments	**912**	**368**	**67**	**1,347**
Other investments	**-**	**187**	**-**	**187**
Derivatives	**7**	**(21)**	**-**	**(14)**
	6,559	**8,177**	**67**	**14,803**
30 June 2013				
Interest bearing investments	4,818	7,309	-	12,127
Equity investments	831	417	82	1,330
Other investments	-	199	-	199
Derivatives	(2)	(38)	-	(40)
	5,647	7,887	82	13,616

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

NOTE 7. INTEREST BEARING LIABILITIES

	CONSOLIDATED **31 December 2013** **$m**	30 June 2013 $m
A. COMPOSITION		
I. Capital nature		
a. TIER 1 REGULATORY CAPITAL*		
Convertible preference shares	**377**	377
Reset exchangeable securities	**550**	550
b. TIER 2 REGULATORY CAPITAL		
GBP subordinated term notes	**186**	167
GBP subordinated exchangeable term notes	**291**	261
NZD subordinated bonds	**300**	276
II. Operational nature		
Other interest-bearing liabilities	**2**	2
Less: capitalised transaction costs	**(10)**	(13)
	1,696	1,620

* These instruments are eligible for recognition as Tier 1 capital. A portion may be reclassified as Tier 2 capital to the extent the amount on issue is in excess of APRA's Tier 1 limits.

B. 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. A comparison of the carrying amount and fair value for the liabilities is provided in the table below:

				CONSOLIDATED
	31 December 2013		30 June 2013	
	Carrying value	**Fair value**	Carrying value	Fair value
	$m	**$m**	$m	$m
I. Capital nature				
a. TIER 1 REGULATORY CAPITAL				
Convertible preference shares	**377**	**393**	377	384
Reset exchangeable securities	**550**	**581**	550	565
b. TIER 2 REGULATORY CAPITAL				
GBP subordinated term notes	**186**	**190**	167	168
GBP subordinated exchangeable term notes	**291**	**291**	261	261
NZD subordinated bonds	**300**	**318**	276	293
II. Operational nature				
Other interest-bearing liabilities	**2**	**2**	2	2
Total	**1,706**		1,633	
Less: capitalised transaction costs	**(10)**		(13)	
	1,696		1,620	

The fair value is calculated using either the quoted market prices or a valuation technique based on market available data for similar instruments.

C. SIGNIFICANT CHANGES DURING THE PERIOD

There were no significant movements or changes to terms and conditions in the interest bearing liabilities since 30 June 2013.

NOTE 8. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

				CONSOLIDATED
	31 December 2013	30 June 2013	**31 December 2013**	30 June 2013
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
Ordinary shares				
Balance at the beginning of the financial period	**2,079**	2,079	**5,353**	5,353
Shares issued under institutional placement, net of transaction costs	**219**	-	**1,186**	-
Balance at the end of the financial period	**2,298**	2,079	**6,539**	5,353

I. For the half year ended 31 December 2013

On 23 December 2013 the Company issued 219,378,428 ordinary shares through a fully underwritten institutional placement at $5.47 per ordinary share (30 June 2013-nil).

NOTE 9. ACQUISITIONS AND DISPOSALS OF BUSINESSES

A. ACQUISITION OF SUBSIDIARIES

I. For the half year ended 31 December 2013

a. AAA Assurance Corporation

On 24 July 2013, the Group increased its stake in AAA Assurance Corporation (AAA) from 30% to 60.9% for a consideration of less than $20 million. The Group's effective shareholding was further increased to 63.17% as a result of a capital reduction during the current half year period. The operating results, assets and liabilities of AAA have been consolidated by the Group from 24 July 2013.

B. OTHER ACQUISITIONS

I. For the half year ended 31 December 2013

a. Wesfarmers Insurance

On 16 December 2013, the Consolidated entity entered into an arrangement to purchase the insurance underwriting businesses of Wesfarmers Limited in Australia and New Zealand for $1.845 billion. The acquisition remains subject to regulatory approvals.

C. DISPOSAL OF SUBSIDIARIES

I. For the half year ended 31 December 2013

There were no disposals of subsidiaries by the Consolidated entity.

NOTE 10. DISCONTINUED OPERATION

The sale of the Group's UK operation was completed on 19 April 2013 and classified as a discontinued operation as at 31 December 2012. As part of the sale agreement the existing pension fund liabilities were retained by the Group.

		CONSOLIDATED
	31 December 2013	31 December 2012
	$m	$m
A. RESULTS OF DISCONTINUED OPERATION		
Revenue	**-**	278
Expenses	**-**	(296)
Loss before tax for the period	**-**	(18)
Net loss on discontinued operation classification	**-**	(164)
Loss for the period from discontinued operation	**-**	(182)

Other comprehensive income and (expense) for the period, net of tax for the discontinued operation was a $nil (31 December 2012-$3 million expense).

B. CASH FLOW FROM/(USED IN) DISCONTINUED OPERATION		
Net cash from/(used in) operating activities	**(68)**	(16)
Net cash from/(used in) investing activities	**(20)**	(94)
Net cash flows for the period	**(88)**	(110)

		CONSOLIDATED
	31 December 2013	31 December 2012
	cents	cents
C. EARNINGS PER SHARE		
Basic earnings per share, from discontinued operation	**-**	(8.80)
Diluted earnings per share, from discontinued operation	**-**	(8.35)

The major classes of assets and liabilities of the UK operation that were classified as a discontinued operation are:

		CONSOLIDATED
	31 December 2013	30 June 2013
	$m	$m
Total assets classified as discontinued operation		
Cash*	**9**	96
	9	96
Total liabilities classified as discontinued operation		
Trade and other payables	**13**	31
UK pension fund liabilities	**10**	75
	23	106

* Cash held as discontinued operation is subject to certain restrictions.

D. UK PENSION FUND LIABILITY

During the current period, one UK pension scheme was finalised and two others had their members' benefits secured in full by way of purchase of a bulk annuity policy with specialist providers for a total consideration of £39.6 million (equivalent to $68 million). Each pension fund member will be issued with an individual annuity policy, once details have been verified, after which the schemes will be wound up.

NOTE 11. INVESTMENT IN JOINT VENTURE AND ASSOCIATES

Summarised information of interests in material joint venture and associates is as follows:

	CARRYING VALUE	OWNERSHIP INTEREST	
	31 December 2013	**31 December 2013**	30 June 2013
	$m	%	%
I. Joint venture			
Accident & Health International Underwriting Pty Limited	**23**	**50.00**	50.00
II. Associates			
AmGeneral Holdings Berhad	**348**	**49.00**	49.00
Bohai Property Insurance Company Ltd	**116**	**20.00**	20.00
SBI General Insurance Company Limited	**91**	**26.00**	26.00
III. Other			
Other joint ventures and associates	**7**		
	585		

NOTE 12. CONTINGENCIES

There have been no material changes in the Group's contingent liabilities or contingent assets since 30 June 2013.

NOTE 13. 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 period or since inception with the small amount of ineffectiveness recognised in profit or loss.

II. Reporting date positions

The fair value of derivative financial instruments is provided below:

			CONSOLIDATED	
	31 December 2013		30 June 2013	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	$m	**$m**	$m	$m
a. NET INVESTMENT HEDGES				
Forward foreign exchange contracts	**35**	**(42)**	23	(67)

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

I. Reporting date positions

The fair value of derivative financial instruments is provided below:

			CONSOLIDATED	
	31 December 2013		30 June 2013	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	$m	**$m**	$m	$m
a. PRESENTED IN INVESTMENTS (INVESTMENT RELATED DERIVATIVES)				
Bond futures	**-**	**(1)**	-	(2)
Options	**8**	**-**	-	-
Forward foreign exchange contracts	**-**	**(21)**	-	(38)
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)				
Forward foreign exchange contracts	**3**	**(7)**	13	(1)

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

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 31 December 2013 (30 June 2013-nil).

NOTE 14. NET TANGIBLE ASSETS

	CONSOLIDATED	
	31 December 2013	30 June 2013
	$	$
Net tangible assets per ordinary share	**1.78**	1.38

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

NOTE 15. 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 half year ended 31 December 2013.

A. INTERIM DIVIDEND

On 21 February 2014, the Board determined to pay an interim dividend of 13.0 cents per share, 100% franked. The dividend will be paid on 2 April 2014.

B. ORDINARY SHARE ISSUANCE - SHARE PURCHASE PLAN

On 3 February 2014 the Group completed the issue of $236 million of ordinary share capital through a Share Purchase Plan at $5.47 per ordinary share. The proceeds will partially fund the Group's recently announced agreement to purchase the insurance underwriting business of Wesfarmers Limited in Australia and New Zealand.

DIRECTORS' DECLARATION

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

- the Consolidated financial statements and notes 1 to 15, are in accordance with the Corporations Act 2001 including:
  - giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2013 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A; and
  - complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 21st day of February 2014 in accordance with a resolution of the directors.

Michael Wilkins
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited (Company), which comprises the consolidated balance sheet as at 31 December 2013, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Consolidated entity comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

DIRECTORS' RESPONSIBILITY FOR THE HALF YEAR FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated entity's financial position as at 31 December 2013 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENCE

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

CONCLUSION

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Insurance Australia Group Limited is not in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Consolidated entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
21 February 2014