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	2014
	$m	$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:		
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	2014
	$m	$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	2014
	$m	$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	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.