21 August 2015

INVESTOR REPORT FY15

Insurance Australia Group

IMPORTANT INFORMATION

This report contains general information in summary form which is current as at 21 August 2015. It presents financial information on both a statutory basis (prepared in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis.

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Local currencies have been used where possible. Prevailing exchange rates have been used to convert local currency amounts into Australian dollars, where appropriate.

All references starting with "1H" refer to the six months ended 31 December, being the first half of IAG's financial year. For example, "1H15" refers to the six months ended 31 December 2014. All references starting with "2H" refer to the six months ended 30 June, being the second half of IAG's financial year. For example, "2H15" refers to the six months ended 30 June 2015. All references starting with "FY" refer to the financial year ended 30 June. For example, "FY15" refers to the year ended 30 June 2015.

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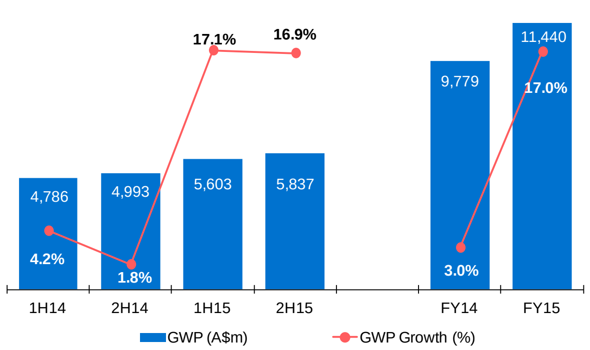
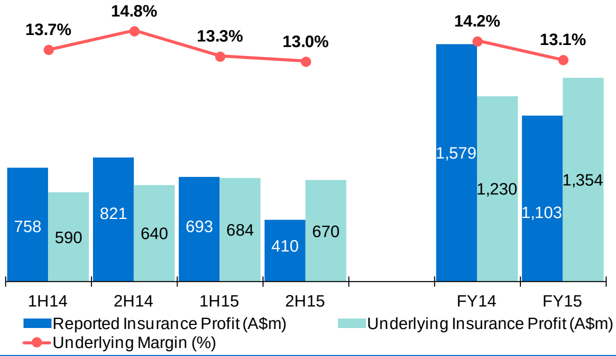
FY15 GROUP RESULTS

KEY RESULTS	FY14 A$m	1H15 A$m	2H15 A$m	FY15 A$m	FY15 vs FY14 Mvt
Gross written premium (GWP)	**9,779**	**5,603**	**5,837**	**11,440**	+17.0%
Net earned premium (NEP)	8,644	5,154	5,175	10,329	+19.5%
Insurance profit	**1,579**	**693**	**410**	**1,103**	**-30.1%**
Net profit after tax (NPAT)	1,233	579	149	728	-41.0%
Cash NPAT	**1,306**	**653**	**334**	**987**	**-24.4%**
Reported insurance margin	18.3%	13.4%	7.9%	10.7%	-760bps
Underlying insurance margin	**14.2%**	**13.3%**	**13.0%**	**13.1%**	**-110bps**
Cash return on equity (ROE)	23.0%	19.8%	10.3%	15.3%	-770bps
Dividend (cents per share)	**39.0**	**13.0**	**16.0**	**29.0**	**-25.6%**
Prescribed Capital Amount (PCA) multiple	1.72	1.62	1.70	1.70	-2bps

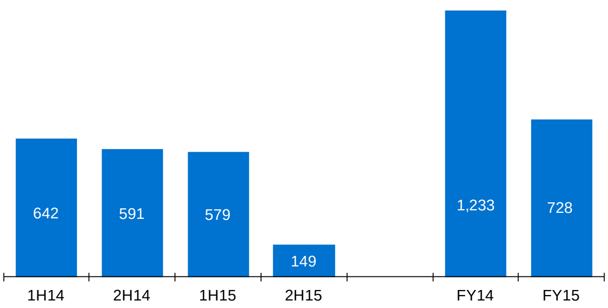
GWP GROWTH



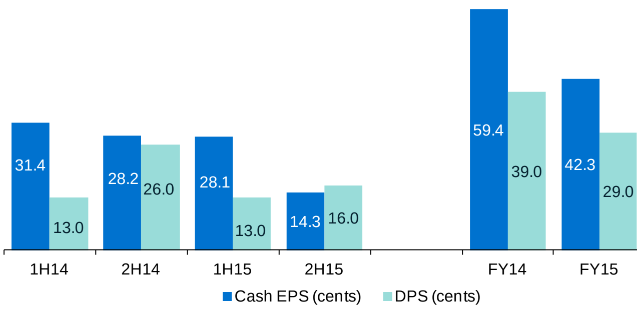
INSURANCE PROFIT & UNDERLYING MARGIN



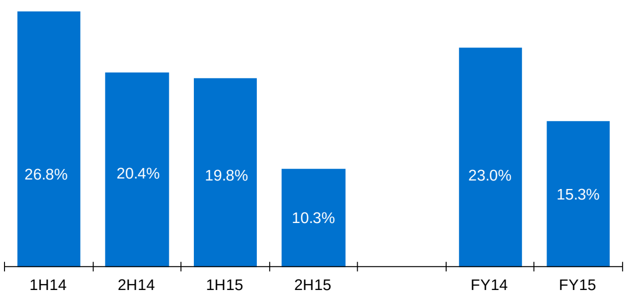
NET PROFIT AFTER TAX (A$M)



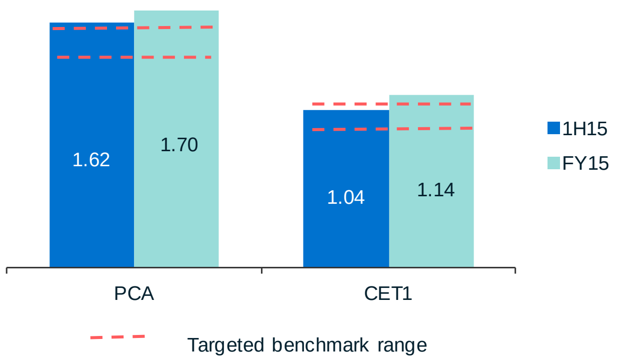
CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Sound business performance, with underlying margin[1] of 13.1% (reported margin of 10.7%), in challenging market conditions
- GWP growth of 17.0%, reflecting acquisition of former Wesfarmers business
- Move to new Australian operating model and integration of Wesfarmers business progressing to plan – initial pre-tax benefits realised in line with $80m run rate exiting FY15 ($230m targeted by end of FY16)
- Full year dividend of 29 cents per share – 70.2% of cash earnings
- Strategic relationship established with Berkshire Hathaway, including 20% quota share arrangement from FY16 and $500m equity placement
- Strong capital position above benchmark targets
- Relatively flat GWP expected in FY16 in low growth environment
- FY16 reported insurance margin guidance of 14-16%, including favourable 200+ basis point effect from quota share
- FY16 underlying performance expected to be similar to FY15 – effect of soft commercial market offset by integration benefits

FY15 OVERVIEW

IAG has delivered a sound operating performance in tougher market conditions

Insurance Australia Group Limited (IAG) has produced a sound FY15 operating performance in an environment of increasingly competitive conditions, including a notably softer commercial market. This outcome attests to the strength of the Group's core franchises in Australia and New Zealand and the considerable improvement in their collective underlying performance in recent years.

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

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

Total FY15 GWP growth of 17.0% primarily reflected the first-time inclusion of the former Wesfarmers business, where related attrition levels remained at the upper end of the Group's 5-10% expectation over the course of the year.

In a low growth environment, like-for-like GWP was relatively flat, incorporating:

- Modest GWP growth in personal lines, driven by short tail motor and home products;
- Heightened competitive pressures in commercial lines, in both Australia and New Zealand, compared to FY14;

[1] IAG defines its underlying insurance margin as the reported insurance margin adjusted for:
- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

1. EXECUTIVE SUMMARY

- The ongoing relative absence of input cost pressures, resulting in minimal cause for rate increases; and
- The maintenance of underwriting discipline in the face of softer pricing, notably in commercial.

The Group's underlying profitability has remained strong, with an underlying margin of 13.1%, compared to 14.2% in FY14. While incorporating some relief from lower reinsurance rates, this outcome reflects the addition of the lower margin former Wesfarmers business, as well as softer commercial market conditions.

Underlying profitability has remained strong

The integration of the former Wesfarmers business and the implementation of a new operating model in Australia are well-advanced and progressing to plan. The Group achieved its targeted pre-tax benefit run rate of $80m by the conclusion of FY15 and is on course to reach a full run rate of $230m by the end of FY16. Related benefits are reflected across a combination of the reinsurance, claims and administration expense lines.

Wesfarmers integration and new operating model progressing to plan

Reported profitability in FY15 was lower than that of FY14, largely owing to the severe incidence of net natural peril claim costs, notably in 2H15.

The reported insurance margin of 10.7% (FY14: 18.3%) incorporates:

- Net natural peril claim costs of $1,048m, which were $348m higher than the related allowance and after exhaustion of the $150m reinsurance cover in excess of the FY15 perils allowance of $700m;
- A reduced favourable impact of $33m from the narrowing of credit spreads, compared to $100m in FY14; and
- Prior period net reserve releases of $167m, inclusive of strengthening related to the New Zealand earthquakes in FY11. This is equivalent to 1.6% of net earned premium (NEP), down from 2.9% of NEP ($248m) in FY14.

In FY15, the Group materially strengthened its gross claim reserves in respect of the FY11 Canterbury earthquake events in New Zealand. The main contributory factors were:

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

February 2011 earthquake event now above reinsurance cover

The bulk of the gross earthquake claim reserve strengthening occurred at the end of 1H15. A more modest increase was recognised at 30 June 2015, resulting in gross claim reserves for the February 2011 event exceeding the applicable reinsurance limit of NZ$4bn and bringing the Group back on risk. A related net reserve strengthening of $134m (~NZ$150m) was recognised in 2H15. The loss estimates for the other major earthquake events remain well below their respective reinsurance limits.

While the Group believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events there remains a degree of uncertainty as to the ultimate cost. As at 30 June 2015, 78% of all earthquake-related claims by number had been fully settled (FY14: 58%).

Investment income on shareholders' funds, of $223m, was over 43% lower than FY15, reflecting more moderate equity market returns, particularly in 2H15, as well as lower average funds held.

1. EXECUTIVE SUMMARY

A significant portion of the Canterbury earthquake-related reinsurance recoveries is recorded by the Group's captive vehicle in the lower tax jurisdiction of Singapore, which provides excess of loss cover to Group entities outside Australia. This translated to an unusually low tax rate of under 11% in FY15.

Net corporate expense increased to $155m (FY14: $68m). This primarily comprised restructuring costs stemming from implementation of the new operating model in Australia and integration costs associated with the former Wesfarmers business.

The Group's amortisation and impairment charge increased significantly to $150m (FY14: $21m). This reflects:

- The commencement of amortisation of intangible assets generated by the acquisition of the former Wesfarmers business; and
- A $60m writedown of the investment in Bohai Insurance, the 20%-owned associate based in China. This was influenced by a revision to the expected cash flows of the business, together with the indicated issue price of new shares in a capital raising in which IAG does not intend to participate.

At $728m, net profit after tax in FY15 was 41% lower than FY14. The lower reported insurance profit, higher net corporate expense, reduced shareholders' funds income and higher amortisation and impairment charge were partially offset by the lower effective tax rate.

Reported return on equity (ROE) in FY15 was 11.3%. Cash ROE was 15.3%, compared to the Group's through-the-cycle target of approximately 15% (1.5 times weighted average cost of capital (WACC)).

The Board has determined to pay a final fully franked dividend of 16.0 cents per ordinary share, which brings the full year payout to 29.0 cents per share (FY14: 39.0cps). This equates to a cash payout ratio of 70.2%, at the top end of the Group's payout policy range of 50-70% of full year cash earnings.

Full year dividend ~70% of cash earnings

DIVISIONAL HIGHLIGHTS

	FY14				FY15			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
DIVISION	A$m	%	%	%	A$m	%	%	%
Personal Insurance	5,335	n/a[1]	21.4	15.4	5,614	5.2	15.9	13.9
Commercial Insurance	2,268	n/a[1]	18.3	12.1	3,192	40.7	3.0	10.5
New Zealand	1,846	17.2	11.5	14.8	2,267	22.8	10.8	15.9
Asia	317	7.5	nm	nm	353	11.4	nm	nm
Corporate & Other	13	nm	nm	nm	14	nm	nm	nm
Total Group	**9,779**	**3.0**	**18.3**	**14.2**	**11,440**	**17.0**	**10.7**	**13.1**

[1]Comparative GWP figures unavailable following move to new Australian reporting structure on 1 July 2014.

- **Personal Insurance** accounted for 49% of Group GWP and continued to perform well with a strong underlying margin of 13.9%, lower than FY14 owing to changed business mix and some softening of current year CTP profitability. The business' reported margin of 15.9% was also lower than FY14, following an adverse movement of nearly 400 basis points owing to increased net natural peril claim costs, which was partially offset by higher prior period reserve releases. GWP growth of 5.2% was largely sourced from incoming former Wesfarmers personal lines volumes. Modest like-for-like growth was achieved in short tail personal lines, while lower long tail GWP reflected the exit from the Queensland CTP market in the prior year and increased competition in the Australian Capital Territory (ACT);

1. EXECUTIVE SUMMARY

- **Commercial Insurance** recorded GWP growth of over 40%, reflecting the addition of the former Wesfarmers business, where attrition was of the order of 10%. Like-for-like (ex-Wesfarmers) GWP growth was modestly negative, owing to slightly lower average rates and the maintenance of underwriting discipline in an increasingly competitive commercial market. The business maintained a double digit underlying margin, with the slightly reduced outcome compared to FY14 reflecting inclusion of the lower margin former Wesfarmers business and tougher market conditions. The reported margin of 3.0% was considerably lower, largely owing to an adverse effect of over 1,100 basis points from the combination of significantly higher net natural peril claim costs and lower reserve releases;
- **New Zealand** continued to perform strongly at an underlying level, while the reported margin was slightly lower than FY14. This was after an earthquake-related net reserve strengthening in 2H15 which served to reduce the full year outcome by over 600 basis points, partially offset by a favourable natural perils experience, particularly in 1H15. The business has maintained its market-leading position, with GWP growth of 22.8% derived from the acquired local Wesfarmers business, augmented by a favourable foreign exchange translation effect. Modest like-for-like growth in direct personal lines was countered by tougher conditions in the commercial market, where underwriting discipline has been maintained; and
- **Asia** saw strong growth in consolidated GWP of over 11%, driven by a resumption of growth in Thailand, as more stable political conditions benefited economic activity. Proportional GWP grew by over 9%, assisted by continued strong growth in India. IAG now participates in a gross regional GWP pool of nearly $1.7bn. Asia's overall earnings contribution increased to $21m (FY14: $14m), as the established businesses in Thailand and Malaysia continued to perform well and the combined operating loss from developing markets (India, China, Vietnam and Indonesia) contracted significantly to $1m.

STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY

Compelling rationale supporting strategic relationship with Berkshire Hathaway

On 16 June 2015, IAG announced it had formed a strategic relationship with Berkshire Hathaway, comprising:

- An exclusive operating relationship in Australia and New Zealand;
- A ten-year, 20% whole-of-account quota share arrangement, commencing 1 July 2015; and
- A $500m equity placement to Berkshire Hathaway, representing approximately 3.7% of IAG's expanded issued capital.

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

CAPITAL

Year-end capital position remains strong

The Group's capital position remains strong, with key regulatory measures at the end of FY15 exceeding long term benchmarks:

- A Prescribed Capital Amount (PCA) multiple of 1.7, compared to the Group's targeted range of 1.4-1.6 and a minimum requirement of 1.0; and
- A Common Equity Tier 1 (CET1) ratio of 1.14, compared to a targeted range of 0.9-1.1 and a minimum requirement of 0.6.

1. EXECUTIVE SUMMARY

Compared to an already strong position at the end of 1H15, the movement in the Group's regulatory capital position since then reflects the net effect of:

- The equity placement to Berkshire Hathaway;
- Required amortisation of hybrid debt instruments; and
- Payment of the interim dividend, which exceeded natural peril-affected 2H15 earnings.

There was a modest initial capital impact from the quota share agreement with Berkshire Hathaway, with a much more significant favourable effect expected in FY16.

If allowance is made for payment of the final dividend (which will occur in October 2015), the respective PCA and CET1 multiples at 30 June 2015 would stand at 1.56 and 1.00.

The Group's debt to total tangible capitalisation ratio at 30 June 2015 was 33.8%. This places the Group in the lower half of its targeted range of 30-40%.

IAG's key wholly-owned operating insurance subsidiaries continue to hold 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG is rated 'A'.

The Group's probability of adequacy for the outstanding claims liability remained at 90% at 30 June 2015.

FY16 OUTLOOK

FY16 guidance of relatively flat GWP, 14-16% reported insurance margin

The outlook for FY16 is one of relatively flat GWP, as the Group maintains its underwriting discipline in the face of what is expected to remain a low growth environment, characterised by relatively challenging market conditions and subdued inflationary pressures.

FY16 GWP expectations have been updated since the initial FY16 guidance, of 0-3% growth, as provided on 16 June 2015. This minor revision accommodates the reported FY15 outcome and recent foreign exchange movements.

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

The Group's reported insurance margin guidance for FY16 remains 14-16%. This includes an at least 200 basis points favourable effect from the implementation of the quota share.

Underlying assumptions behind the reported margin guidance are:

- Net losses from natural perils in line with allowance of $600m;
- Prior period reserve releases of at least 1% of NEP; and
- No material movement in foreign exchange rates or investment markets.

FY16 is also expected to see Asia report a stronger underlying performance, alongside progress in expanding the Group's regional footprint, including the dial-up of ownership in India to 49%.

2. PURPOSE & STRATEGY

PURPOSE AND VISION

IAG's purpose is: *We help make your world a safer place*.

This means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves across Australia, New Zealand or Asia, IAG exists to 'help make your world a safer place'.

IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.

The Group's vision is: *To create Asia Pacific's most loved, most inventive and most successful insurer*.

We help make your world a safer place

STRATEGIC PRIORITIES

Four strategic priorities

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

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

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

2. PURPOSE & STRATEGY

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

Grow Asian footprint and its earnings contribution

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

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

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

Accelerate digital transformation

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

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

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

Create deeper customer insights and an agile response

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

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

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

3. GROUP RESULTS

FINANCIAL PERFORMANCE

GROUP RESULTS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Gross written premium	**4,786**	**4,993**	**5,603**	**5,837**	**9,779**	**11,440**
Gross earned premium	4,885	4,836	5,805	5,720	9,721	11,525
Reinsurance expense	(565)	(512)	(651)	(545)	(1,077)	(1,196)
Net earned premium	**4,320**	**4,324**	**5,154**	**5,175**	**8,644**	**10,329**
Net claims expense	(2,508)	(2,693)	(3,481)	(3,460)	(5,201)	(6,941)
Commission expense	(400)	(411)	(518)	(516)	(811)	(1,034)
Underwriting expense	(741)	(751)	(889)	(924)	(1,492)	(1,813)
Underwriting profit	**671**	**469**	**266**	**275**	**1,140**	**541**
Investment income on technical reserves	87	352	427	135	439	562
Insurance profit	**758**	**821**	**693**	**410**	**1,579**	**1,103**
Net corporate expense	(1)	(67)	(44)	(111)	(68)	(155)
Interest	(47)	(51)	(52)	(55)	(98)	(107)
Profit from fee based business	12	-	10	9	12	19
Share of profit/(loss) from associates	(3)	5	9	7	2	16
Investment income on shareholders' funds	233	163	137	86	396	223
Profit before income tax and amortisation	**952**	**871**	**753**	**346**	**1,823**	**1,099**
Income tax expense	(266)	(206)	(68)	(51)	(472)	(119)
Profit after income tax (before amortisation)	**686**	**665**	**685**	**295**	**1,351**	**980**
Non-controlling interests	(34)	(63)	(63)	(39)	(97)	(102)
Profit after income tax and non-controlling interests (before amortisation)	**652**	**602**	**622**	**256**	**1,254**	**878**
Amortisation and impairment	(10)	(11)	(43)	(107)	(21)	(150)
Profit attributable to IAG shareholders	**642**	**591**	**579**	**149**	**1,233**	**728**

Insurance Ratios	1H14	2H14	1H15	2H15	FY14	FY15
Loss ratio	58.1%	62.3%	67.5%	66.9%	60.2%	67.2%
Immunised loss ratio	60.9%	59.3%	63.7%	67.0%	60.1%	65.3%
Expense ratio	26.5%	26.9%	27.3%	27.9%	26.7%	27.6%
Commission ratio	9.3%	9.5%	10.1%	10.0%	9.4%	10.0%
Administration ratio	17.2%	17.4%	17.2%	17.9%	17.3%	17.6%
Combined ratio	84.6%	89.2%	94.8%	94.8%	86.9%	94.8%
Immunised combined ratio	87.4%	86.2%	91.0%	94.9%	86.8%	92.9%
Insurance margin	17.5%	19.0%	13.4%	7.9%	18.3%	10.7%

Key Financial Metrics (Total Operations)	1H14	2H14	1H15	2H15	FY14	FY15
Reported ROE (average equity) (% pa)	26.4%	18.5%	17.6%	4.6%	21.7%	11.3%
Cash ROE (average equity) (% pa)	26.8%	20.4%	19.8%	10.3%	23.0%	15.3%
Basic EPS (cents)	30.88	25.48	24.87	6.38	56.09	31.22
Diluted EPS (cents)	29.56	24.32	24.08	6.51	53.62	30.45
Cash EPS (cents)	31.41	28.16	28.05	14.30	59.41	42.33
DPS (cents)	13.00	26.00	13.00	16.00	39.00	29.00
Probability of adequacy	90%	90%	90%	90%	90%	90%
PCA multiple	2.31	1.72	1.62	1.70	1.72	1.70

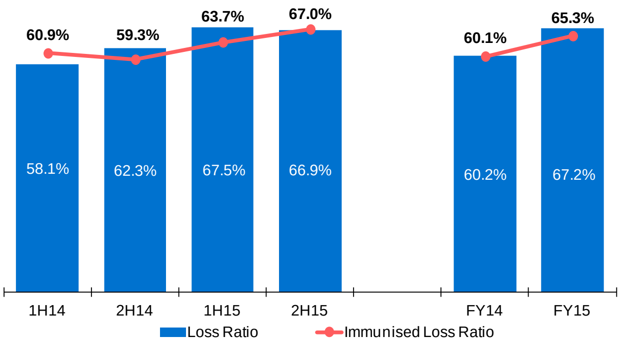
KEY FOREIGN EXCHANGE RATES APPLIED

	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY14	FY15	FY14	FY15
New Zealand dollar	0.9287	0.8785	0.9049	0.9306
Thai baht	0.0327	0.0383	0.0340	0.0368
Malaysian ringgit	0.3304	0.3433	0.3357	0.3475
Indian rupee	0.0177	0.0204	0.0178	0.0194
Chinese yuan renminbi	0.1710	0.2121	0.1776	0.1946

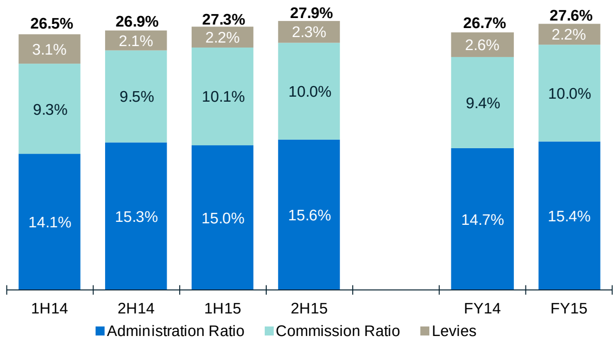
3. GROUP RESULTS

INSURANCE RATIOS

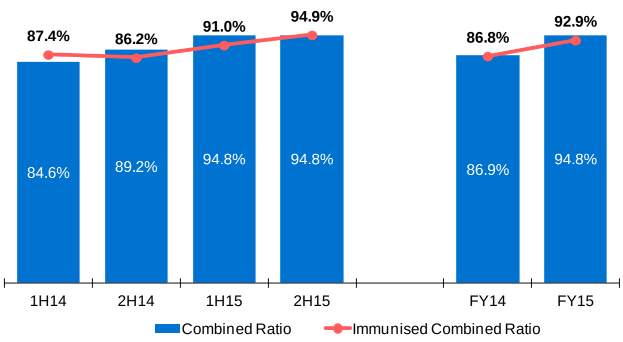
LOSS RATIO



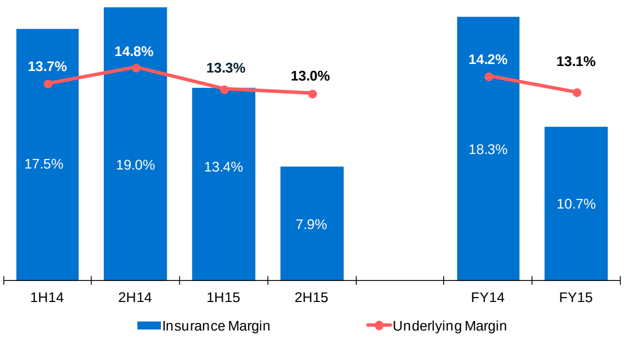
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



PREMIUMS

Group GWP in FY15 was $11,440m, up 17.0% from $9,779m in FY14. This strong growth reflects the first-time inclusion of the former Wesfarmers business. Other features of the FY15 GWP performance were:

- Limited personal lines rate movements in Australia and New Zealand in an environment of heightened competition and very modest claims inflation;
- Modest volume growth in key classes, notably personal motor and SME;
- Tougher commercial market conditions in both Australia and New Zealand, where IAG's underwriting disciplines have been maintained;
- Attrition in respect of the former Wesfarmers business at the upper end of the Group's 5-10% expectation over the course of the year; and
- A slightly favourable foreign exchange translation effect, principally in respect of New Zealand.

Comparing FY15 GWP with FY14 on a divisional basis:

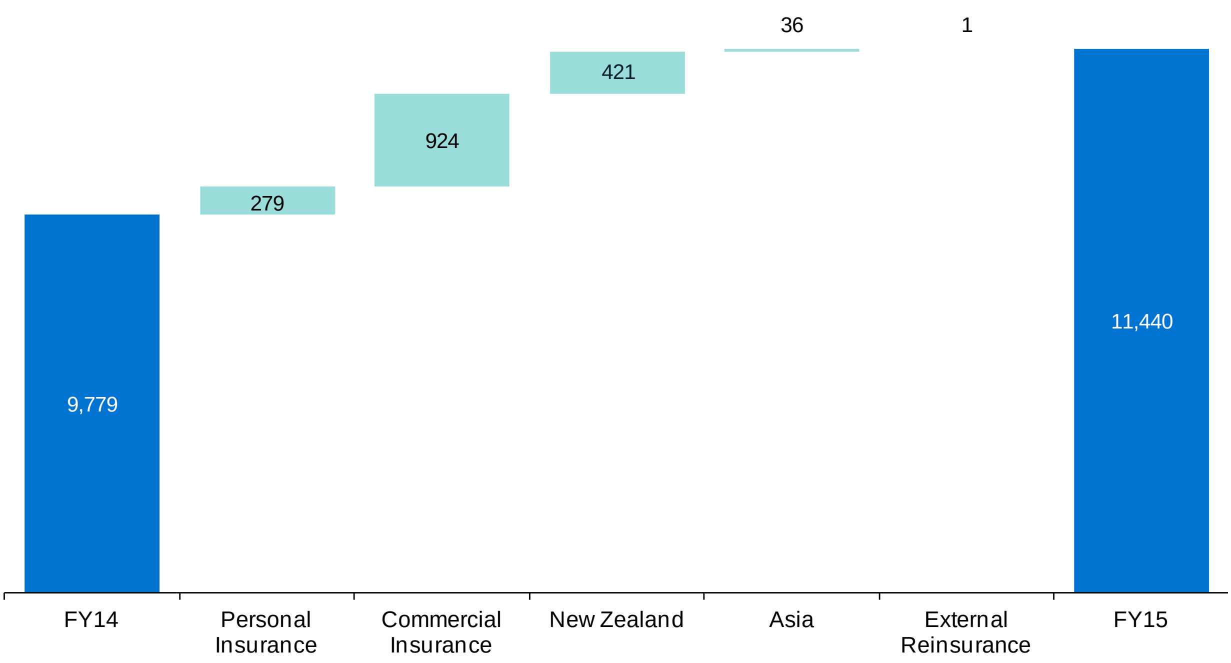
- **Personal Insurance** grew its GWP by 5.2%, to $5,614m, reflecting the first-time addition of personal lines volumes associated with the former Wesfarmers business, including Coles. Rate movements were negligible, while modest volume growth was achieved in short tail classes, notably motor. Long tail GWP declined 2.8%, largely owing to IAG's exit from the Queensland CTP market from 1 January 2014;
- **Commercial Insurance** GWP rose by nearly 41%, to $3,192m, following the inclusion of the former Wesfarmers business, where attrition was of the order of 10%. Softer market conditions resulted in a modest contraction in like-for-like GWP (ex-Wesfarmers), while retention levels remained high, particularly in the key SME segment;

GWP growth of 17.0%, driven by addition of the former Wesfarmers business

3. GROUP RESULTS

- **New Zealand** reported a 22.8% increase in GWP, to $2,267m, following incorporation of the local former Wesfarmers business and a favourable foreign exchange translation effect. Local currency GWP growth was 19.4%. On a like-for-like basis, GWP fell slightly, with growth in personal lines offset by competitive commercial market conditions; and
- In **Asia**, consolidated GWP rose by 11.4%, to $353m, largely reflecting a resumption of growth in Thailand which was assisted by an improved economic backdrop. On a proportional basis, GWP increased by 9.5%, which included continued strong growth in India. IAG now participates in a gross regional annualised GWP pool of nearly $1.7bn.

GWP – FY15 VS. FY14 (A$M)



INSURANCE MARGIN

The Group continued to perform strongly at an underlying level. The FY15 underlying margin of 13.1% is lower than FY14 (14.2%), but has continued to exceed the level required to meet the Group's through-the-cycle ROE target. The reduction in underlying margin reflects the impact of softer commercial market conditions and, more significantly, the first-time incorporation of the lower margin former Wesfarmers business.

Underlying performance has remained strong

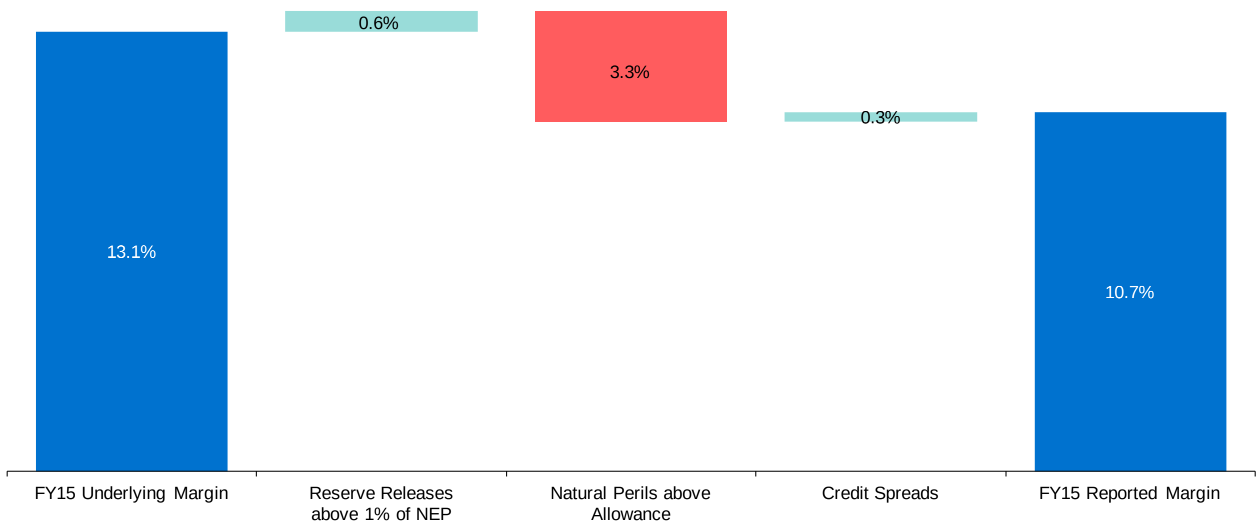
Integration of this business and the Group's move to a new operating model in Australia are progressing to plan and are expected to generate significant annualised benefits by the end of FY16 ($230m pre-tax). A relatively small portion of these benefits was realised in FY15, with the Group exiting the year at a pre-tax benefit run rate of around $80m, in line with expectations. Related benefits are reflected across a combination of the reinsurance, claims and administration expense lines.

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

- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

3. GROUP RESULTS

GROUP INSURANCE MARGIN – UNDERLYING VS. REPORTED



The Group's reported FY15 insurance margin, of 10.7%, was significantly lower than the FY14 outcome of 18.3%. Of the 760 basis points reduction, nearly 600 basis points can be ascribed to the collective impact of:

- A severe natural peril experience, particularly in 2H15, which saw related net claim costs of $1,048m reduce the reported margin by over 1,000 basis points (FY14: 640bps). This outcome exceeded allowance by $348m, representing an adverse margin effect of 330 basis points. By contrast, net peril costs in FY14 were $87m below allowance, creating a comparable favourable margin effect of around 100 basis points;
- An $81m reduction in prior period net reserve releases, after inclusion of over $130m of New Zealand earthquake-related strengthening in 2H15. There was an overall margin effect of 160 basis points from reserve releases, compared to 290 basis points in FY14; and
- A lower favourable credit spread impact of $33m in FY15 (FY14: $100m), following a modest widening of spreads in 2H15.

Reported margin influenced by adverse perils experience

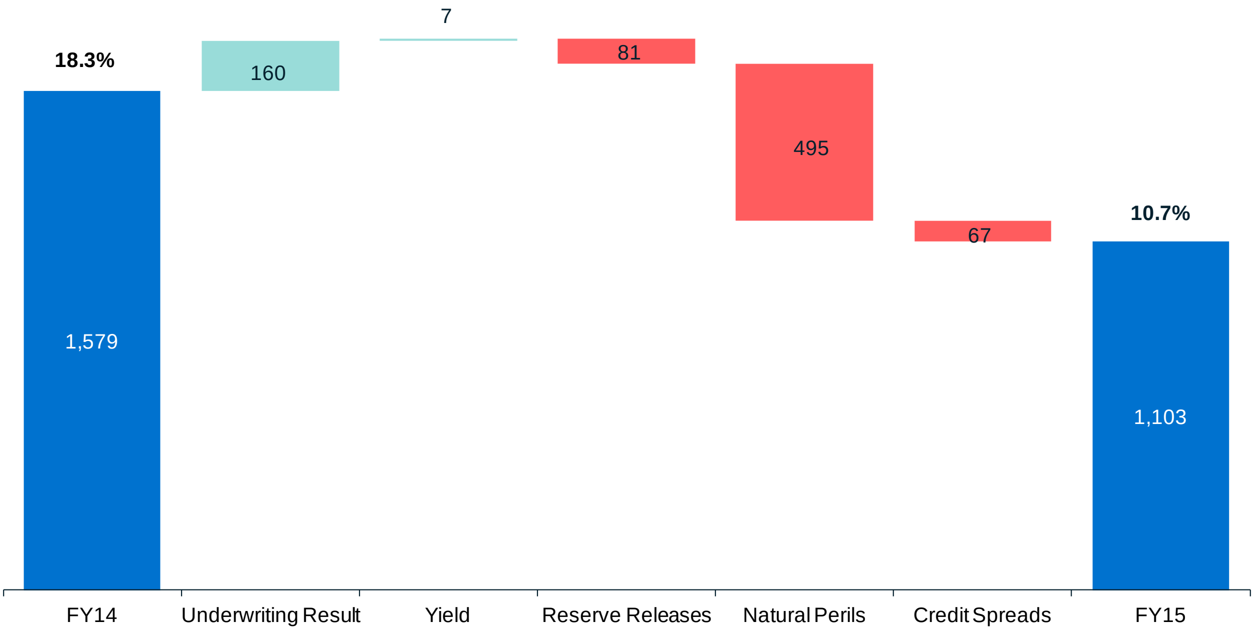
The Group's underlying underwriting result increased by $160m, primarily driven by the addition of the former Wesfarmers business. Reported and underlying margins for the three main operating divisions in Australia and New Zealand have been influenced to varying degrees by the first-time inclusion of this business. Divisional outcomes in FY15 were:

- A strong underlying margin of 13.9% from **Personal Insurance**, which was consistent across the year. The reduction against FY14 (15.4%) reflected the inclusion of lower margin former Wesfarmers volumes, as well as some softening of CTP profitability owing to higher claim frequency with increased legal representation. The reported margin of 15.9% included increased reserve releases from long tail classes, offset by higher net natural peril claim costs;
- A reduced underlying margin of 10.5% from **Commercial Insurance**, reflecting both the input from the lower margin former Wesfarmers business and the impact of softer commercial market conditions. A significantly lower reported margin of 3.0% incorporated a markedly adverse natural peril experience, which materially exceeded allowance and reduced the reported margin outcome by nearly 1,000 basis points, compared to FY14;

3. GROUP RESULTS

- A continued strong performance from **New Zealand**, with a higher underlying margin of 15.9%. The division's reported margin, of 10.8%, was only slightly lower than FY14 and was after the recognition of earthquake-related reserve strengthening of over $130m in 2H15. This was partially offset by a favourable natural peril experience, particularly in 1H15, which enhanced the reported margin by nearly 400 basis points compared to FY14; and
- A lower insurance profit of $5m from **Asia** (FY14: $12m). While Thailand continued to perform well at an underlying level, its lower result reflected an absence of prior period reserve releases, a higher incidence of large fire losses and increased commission costs stemming from growth in the agency and broker channels. Vietnam moved to a modest profit and a small initial loss was recognised in respect of the recently-acquired business in Indonesia.

INSURANCE PROFIT ($M) / MARGIN (%) – FY15 VS. FY14



INSURANCE MARGIN IMPACTS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	187	61	92	75	248	167
Natural perils	(335)	(218)	(421)	(627)	(553)	(1,048)
Natural peril allowance	320	320	350	350	640	700
Credit spreads	39	61	40	(7)	100	33
Reserve releases	4.3%	1.4%	1.8%	1.4%	2.9%	1.6%
Natural perils	(7.8%)	(5.0%)	(8.2%)	(12.1%)	(6.4%)	(10.1%)
Natural peril allowance	7.4%	7.4%	6.8%	6.8%	7.4%	6.8%
Credit spreads	0.9%	1.4%	0.8%	(0.1%)	1.2%	0.3%

3. GROUP RESULTS

REINSURANCE EXPENSE

The total reinsurance expense includes the cost of all covers purchased by the Group, including catastrophe, casualty, facultative and proportional protection. The FY15 expense of $1,196m includes $310m (FY14: $267m) from CTP-related effects, comprising:

- The quota share agreement for 30% of the combined CTP book, which commenced 1 July 2013; and
- A one-off expense from commencement of the CTP adverse development cover (ADC), from 1 July 2014.

Excluding the above CTP effects, FY15's reinsurance expense was 7.7% of reported GWP, down from 8.3% in FY14. This reflects the net effect of:

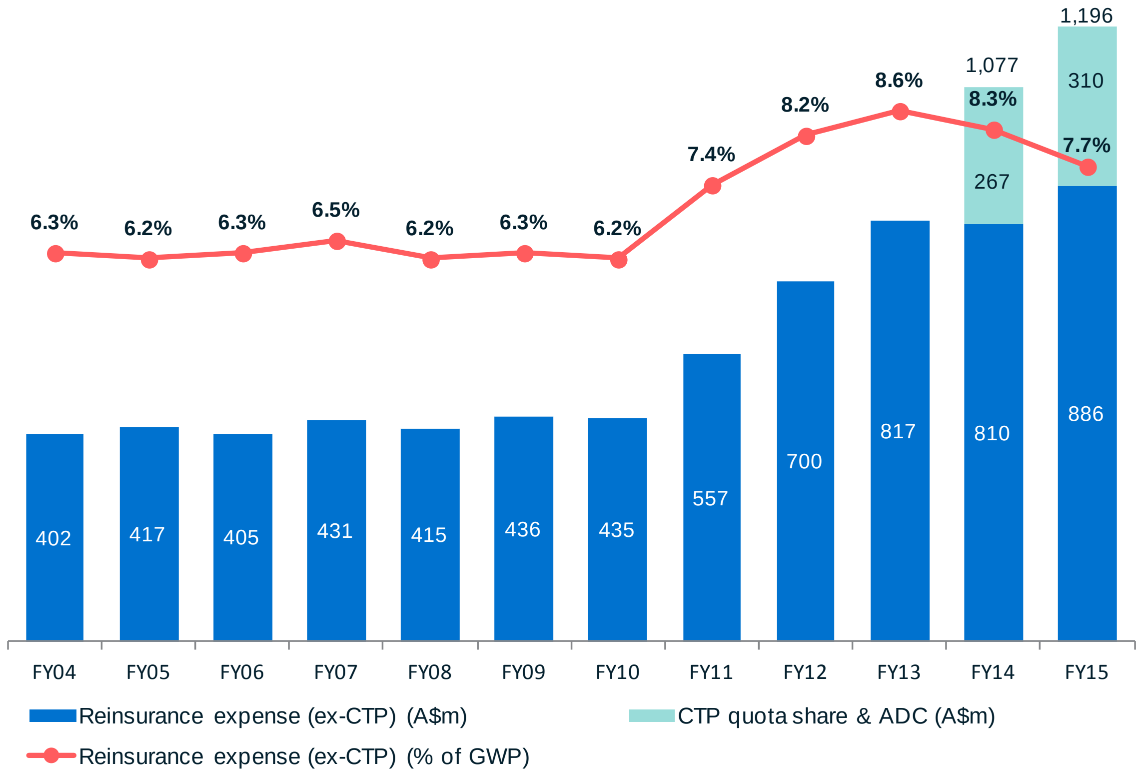
- Lower catastrophe reinsurance costs, stemming from the calendar 2014 and 2015 renewals, at which favourable market conditions were encountered;
- Inclusion of the relatively higher cost standalone catastrophe programme for the former Wesfarmers business, in 1H15; and
- Synergies from incorporation of the former Wesfarmers business into the Group catastrophe programme from 1 January 2015.

The equivalent ratio in 2H15 was 7.2%.

The quota share agreement with Berkshire Hathaway commenced 1 July 2015 and had no impact on the FY15 reinsurance expense.

Favourable trend in reinsurance expense, ex-CTP effects

REINSURANCE EXPENSE



3. GROUP RESULTS

CLAIMS

The higher FY15 immunised loss ratio of 65.3% (FY14: 60.1%) was driven by:

- Lower prior period reserve releases; and
- Higher net natural peril claim costs.

The combined effect of these two factors was to increase the immunised loss ratio by around 500 basis points, compared to FY14.

The FY15 reported loss ratio of 67.2% is considerably higher than FY14 (60.2%). In addition to the reserve release and peril influences outlined above, it contains an adverse risk free discount rate adjustment of over $190m, after inclusion of foreign exchange effects. This compares to an equivalent negative adjustment of less than $10m in FY14.

Reserve release and peril factors increased FY15 loss ratio by around 500 basis points

Reserve Releases

The FY15 net claims expense includes $167m of prior period reserve releases, equivalent to 1.6% of NEP. This is down from the 2.9% of NEP reported in FY14.

The FY15 reserve release outcome included:

- Higher than expected releases from Australian long tail classes, notably CTP; offset by
- A negative impact of over $130m following the 2H15 strengthening of reserves in respect of the February 2011 New Zealand earthquake event.

Reserve releases include earthquake-related strengthening in New Zealand

During FY15 the Group materially strengthened its gross claim reserves for the FY11 Canterbury earthquake events, with the majority of the strengthening relating to the 22 February 2011 event. Most of this occurred at the end of 1H15, however a more modest increase at 30 June 2015 resulted in the gross claim reserves for the February 2011 event exceeding the applicable reinsurance limit of NZ$4bn and bringing the Group back on risk. A related reserve strengthening of $134m (~NZ$150m) was recognised in 2H15. The loss estimates for the other major earthquake events remain well below their respective reinsurance limits.

The overall gross reserve strengthening was primarily driven by:

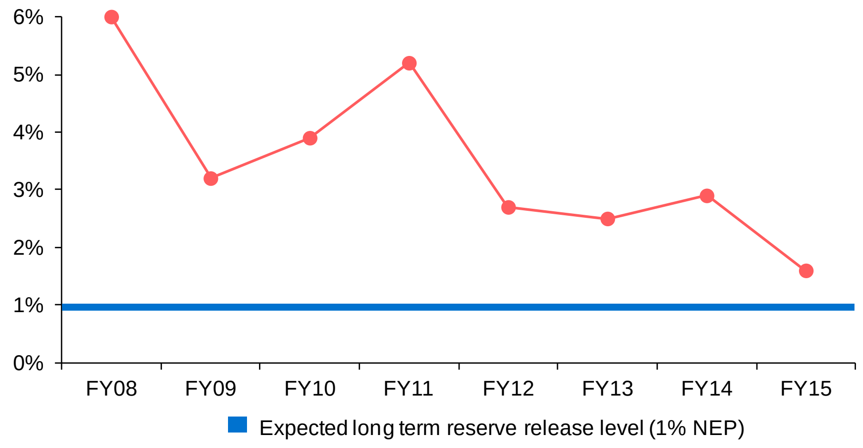
- The continuing notification of new household claims that have exceeded the Earthquake Commission's (EQC) NZ$100,000 residential dwelling limit;
- An increase in forecast repair and rebuild costs; and
- A series of adverse court judgements which have affected the insurance industry.

While the Group believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events there remains a degree of uncertainty as to the ultimate cost. As at 30 June 2015, 78% of all earthquake-related claims by number had been fully settled (FY14: 58%).

RESERVE RELEASES	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	187	61	92	75	248	167
Impact on insurance margin	**4.3%**	**1.4%**	**1.8%**	**1.4%**	**2.9%**	**1.6%**

3. GROUP RESULTS

RESERVE RELEASES – IMPACT ON INSURANCE MARGIN



As embodied in its underlying margin definition, the Group believes that reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods. This reflects the Group's approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years.

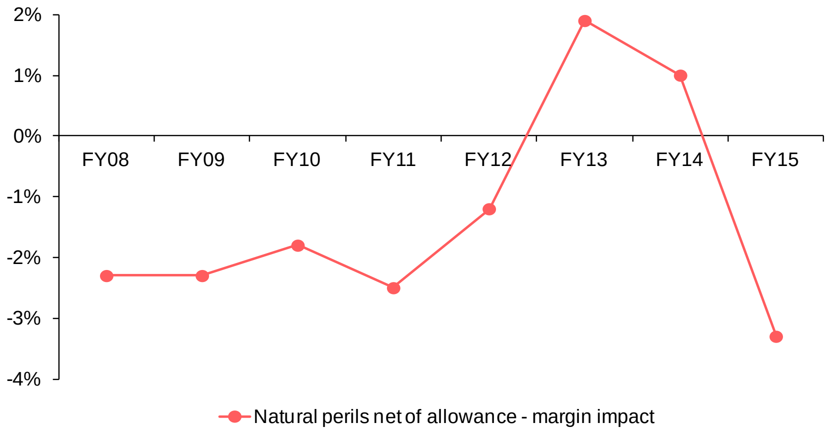
Natural Perils

The FY15 net claims expense included $1,048m (FY14: $553m) of losses from natural perils (net of reinsurance), which was well in excess of the $700m allowance. This outcome was also after full utilisation of the FY15-specific cover of $150m in excess of $700m.

The net effect of natural perils (after allowance) was an adverse impact on the reported insurance margin of 330 basis points (FY14: favourable impact of 100bps).

Severe natural peril activity in FY15, with claim costs significantly higher than allowance

NATURAL PERILS – IMPACT ON INSURANCE MARGIN



NATURAL PERILS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Natural peril claim costs	(335)	(218)	(421)	(627)	(553)	(1,048)
Natural peril allowance	320	320	350	350	640	700
Impact on insurance profit	**(15)**	**102**	**(71)**	**(277)**	**87**	**(348)**
Impact on insurance margin	**(0.4%)**	**2.4%**	**(1.4%)**	**(5.3%)**	**1.0%**	**(3.3%)**

3. GROUP RESULTS

There were a number of significant natural peril events during the year:

- The Brisbane hail storm in late November 2014, which accounted for nearly 40% of total net natural peril claim costs in 1H15;
- Tropical Cyclone Marcia in February 2015, which led to significant property damage in Queensland and northern New South Wales;
- The east coast low which resulted in significant storm damage in New South Wales in April 2015, the cost of which was capped at the Group's retention of $250m; and
- The Anzac Day hail storm in Sydney, in late April 2015.

Attritional natural peril events (less than $15m in size) amounted to $305m and were of a similar quantum to FY14 ($307m). The increased size of the Group, following the addition of the former Wesfarmers business, has resulted in a higher number of events falling above the Group's $15m disclosure level. In FY15, five events fell in the range of $15-20m, with a combined cost of $88m, compared to two events in FY14 (combined cost of $31m).

The relatively high number of qualifying events during 2H15 saw the $375m deductible for the calendar 2015 aggregate reinsurance cover entirely eroded. In addition, approximately $70m of the $450m aggregate cover had been utilised at 30 June 2015. This leaves the Group in a strong position in 1H16, with around $380m of aggregate protection available in this six-month period. This reduces by 20% after allowance for the quota share agreement with Berkshire Hathaway which commenced on 1 July 2015.

The Group retains the first $25m of any event before being able to claim under the aggregate cover, or $20m after the quota share effect.

FY15 NATURAL PERIL COSTS BY EVENT	A$m
Severe winds and storm - Perth / Melbourne (September 2014)	18
Storms, east coast low - New South Wales / Victoria (October 2014)	20
Severe thunderstorms - Western Australia (October 2014)	23
Hail storm - Brisbane (November 2014)	210
Hail and severe storms - Sydney (December 2014)	48
Bushfires - South Australia (January 2015)	15
Tropical Cyclone Marcia - Queensland / northern New South Wales (February 2015)	133
Tropical Cyclone Olwyn - Western Australia (March 2015)	19
Large hail and flash floods - SE Queensland / northern New South Wales (March 2015)	37
East coast low - Sydney / Hunter region (April 2015)	250
Anzac Day hail and associated storm - Sydney / Wellington (April 2015)	56
East coast low - SE Queensland / northern New South Wales (April 2015)	25
Tasman low and associated flooding - SE Australia / Dunedin (June 2015)	16
Storms and flooding - SE Australia / Whanganui (June 2015)	23
Other events (<$15m)	305
FY15 perils cover ($150m xs $700m)	(150)
Total	**1,048**

3. GROUP RESULTS

EXPENSES

Modest initial benefits from Wesfarmers integration and new operating model, in line with plan

Total operating expenses (commission and underwriting) increased by over 23% to $2,847m, producing a reported expense ratio of 27.6% (FY14: 26.7%).

Excluding government levies, the Group's administration ratio was 15.4%, compared to 14.7% in FY14. The higher ratio in FY15 reflects:

- Inclusion of the higher administration cost level applicable to the intermediated business lines of the former Wesfarmers operation;
- Ongoing investment in the overall business, directed towards long term efficiency and customer-oriented projects, notably in Personal Insurance; and
- Initial benefits from the integration of the former Wesfarmers business and the move to a new operating model in Australia. Related benefits are reflected across a combination of the reinsurance, claims and administration expense lines.

The Group's commission ratio of 10% was higher than FY14 (9.4%), primarily reflecting the increased proportion of business derived from intermediated or agency channels, following the addition of the former Wesfarmers business.

INVESTMENT INCOME ON TECHNICAL RESERVES

Technical reserves income boosted by unrealised capital gain

Investment income on technical reserves for FY15 was $562m, compared to $439m in FY14. This outcome includes:

- An unrealised capital gain of $167m, compared with an equivalent unrealised gain of $56m in FY14, excluding foreign exchange effects;
- An overall positive impact of $33m from the narrowing of credit spreads (FY14: $100m), after a modest widening of spreads in 2H15; and
- A favourable foreign exchange impact of $24m (FY14: adverse $48m), including that from the hedge associated with reinsurance recoveries held by the offshore captive in Singapore in respect of the New Zealand earthquakes in FY11. A corresponding offset is included in the net claims expense, resulting in no net impact to the insurance margin.

The portfolio continues to be aligned with the average weighted duration of the Group's claims liability, at three to four years.

NET CORPORATE EXPENSE

Net corporate expense in respect of new Australian operating model and integration of former Wesfarmers business

A pre-tax net corporate expense of $155m was recognised in FY15 (FY14: $68m). This primarily comprises restructuring costs in respect of the new operating model in Australia (implemented from 1 July 2014) and integration costs associated with the acquisition of the former Wesfarmers business. The post-tax impact on reported earnings was $109m.

It remains the Group's expectation that these restructuring and integration costs will total approximately $220m pre-tax. Over $200m of such costs has been recognised across FY14 and FY15, with the residual balance expected to be incurred in FY16.

PROFIT FROM FEE BASED BUSINESS

Fee based business generated a higher profit of $19m in FY15 (FY14: $12m). The majority of this was sourced from Commercial Insurance's role as agent for the New South Wales (NSW) and Victorian workers' compensation schemes. The improved result reflects initial savings from restructuring undertaken in FY14 and the absence of related costs.

3. GROUP RESULTS

SHARE OF ASSOCIATES

The Group's Asian joint venture interests represent the vast majority of the share of earnings from associates, and in FY15 comprised:

- A 49% interest in AmGeneral Holdings in Malaysia;
- A 26% interest in SBI General Insurance Company in India; and
- A 20% interest in Bohai Property Insurance in China.

The contribution from the Asian associates was a profit of $16m, after allocation of $20m of regional support and development costs. The Group's overall share of associates was a profit of $16m (FY14: $2m), reflecting the improved financial performance of the combined Asian associates.

Share of associates largely derived from Asian interests

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of $223m, a decrease of over 43% on the profit of $396m in FY14. The lower outcome was driven by the markedly more modest return from equity markets in FY15 and lower average funds. The broader Australian index (S&P ASX200 Accumulation) delivered a positive result of 5.7%, while the equivalent return in FY14 was 17.4%.

At 30 June 2015 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at 41% (1H15: 36%).

Lower shareholders' funds income reflects lower equity returns and lower average funds

TAX EXPENSE

The Group reported a tax expense of $119m in FY15, compared to $472m in FY14, representing an effective tax rate (pre-amortisation) of approximately 11%.

This unusually low tax rate largely reflects reinsurance recoveries recognised in the period which relate to the FY11 Canterbury earthquake events in New Zealand. A substantial portion of these recoveries is recorded by the Group's captive vehicle in the lower tax jurisdiction of Singapore.

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

The FY15 tax expense reconciles to the prevailing Australian corporate rate of 30% after allowing for:

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

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

Lower effective tax rate reflects impact of reinsurance recoveries

NON-CONTROLLING INTERESTS

Non-controlling interests in the Group's profit amounted to $102m in FY15, compared to $97m in FY14. The majority of the non-controlling interests is earnings attributable to the minority 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT form part of Personal Insurance. The IMA result was similar to FY14.

3. GROUP RESULTS

AMORTISATION AND IMPAIRMENT

The FY15 amortisation and impairment charge of $150m compares to $21m reported in FY14. The higher charge reflects:

- The commencement of amortisation of intangible assets generated by the acquisition of the former Wesfarmers business; and
- A $60m writedown of the investment in Bohai Insurance, the 20%-owned associate based in China. This was influenced by a revision to the expected cash flows of the business, together with the indicated issue price of new shares in a capital raising in which IAG does not intend to participate.

Higher amortisation reflects Wesfarmers-related intangibles and Bohai writedown

EARNINGS PER SHARE

Basic earnings per share (EPS) in FY15 was 31.22 cents per share (cps), compared to 56.09cps in FY14, a decrease of 44.3%. FY15 basic EPS was calculated on weighted average capital on issue of approximately 2,332m shares (excluding treasury shares). On a diluted basis, EPS was 30.45cps (FY14: 53.62cps).

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,341.6
Shares issued under Berkshire Hathaway placement	89.8
Balance at the end of the financial year	**2,431.4**
Average weighted shares on issue	2,345.3
Less: Treasury shares held in trust	(13.1)
Average weighted shares on issue (excluding treasury shares)	**2,332.2**

The sole movement in ordinary issued capital during FY15 was the placement of 89.8m shares in June 2015 as part of the strategic relationship formed with Berkshire Hathaway.

Cash EPS was 42.33cps, compared to 59.41cps in FY14, a decrease of 28.7%. Cash earnings are used for targeted ROE and dividend payout policy purposes, and are defined as:

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles (post-tax); and
- Excluding any unusual items (post-tax).

FY15 cash EPS of 42.33 cents

CASH EARNINGS	FY15 A$m
Net profit after tax	**728**
Intangible amortisation and impairment	150
Unusual items:	
- Corporate expenses	155
- Tax effect on corporate expenses	(46)
Cash earnings	**987**
Dividend payable	**693**
Cash payout ratio	**70.2%**

3. GROUP RESULTS

DIVIDEND

Cash payout ratio of 70.2% in FY15

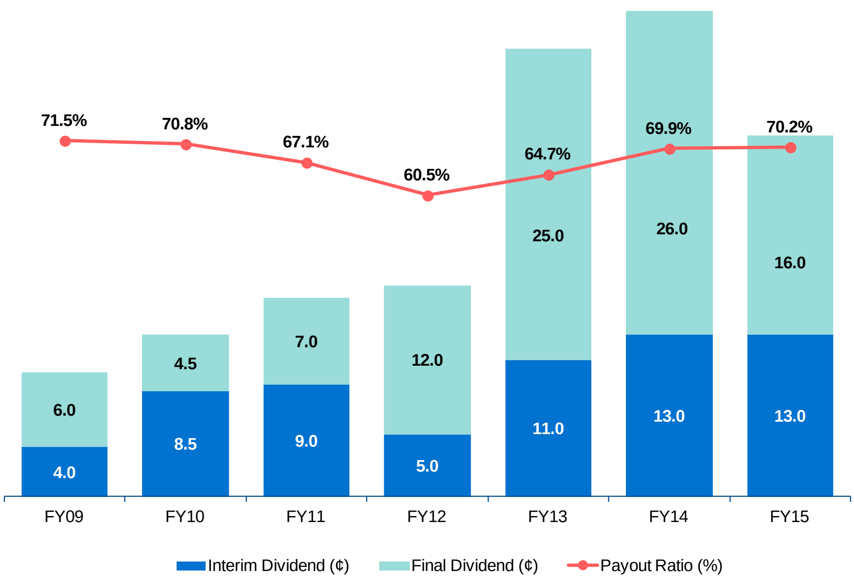
IAG's policy is to pay dividends equivalent to approximately 50–70% of reported cash earnings in any given financial year.

The Board has determined to pay a fully franked final dividend of 16.0 cents per ordinary share (2H14: 26.0cps). This brings the full year dividend to 29.0 cents per share (FY14: 39.0cps), which equates to a payout ratio of 70.2% of cash earnings for the year. The final dividend is payable on 7 October 2015 to shareholders registered as at 5pm on 9 September 2015.

The dividend reinvestment plan (DRP) will operate for the final dividend for shareholders registered for the DRP as at 5pm on 10 September 2015. The issue price per share for the 2H15 dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at:
http://www.iag.com.au/shareholder-centre/dividends/reinvestment

As at 30 June 2015, and after allowance for payment of the final dividend, the Group's franking balance was $374m, giving it the capacity to fully frank a further $873m of distributions.

DIVIDEND HISTORY – FY09-FY15



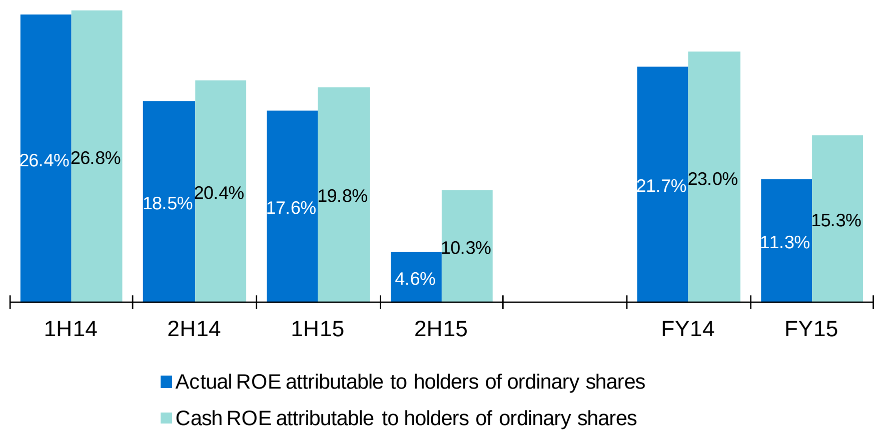
RETURN ON EQUITY

Cash ROE of 15.3%

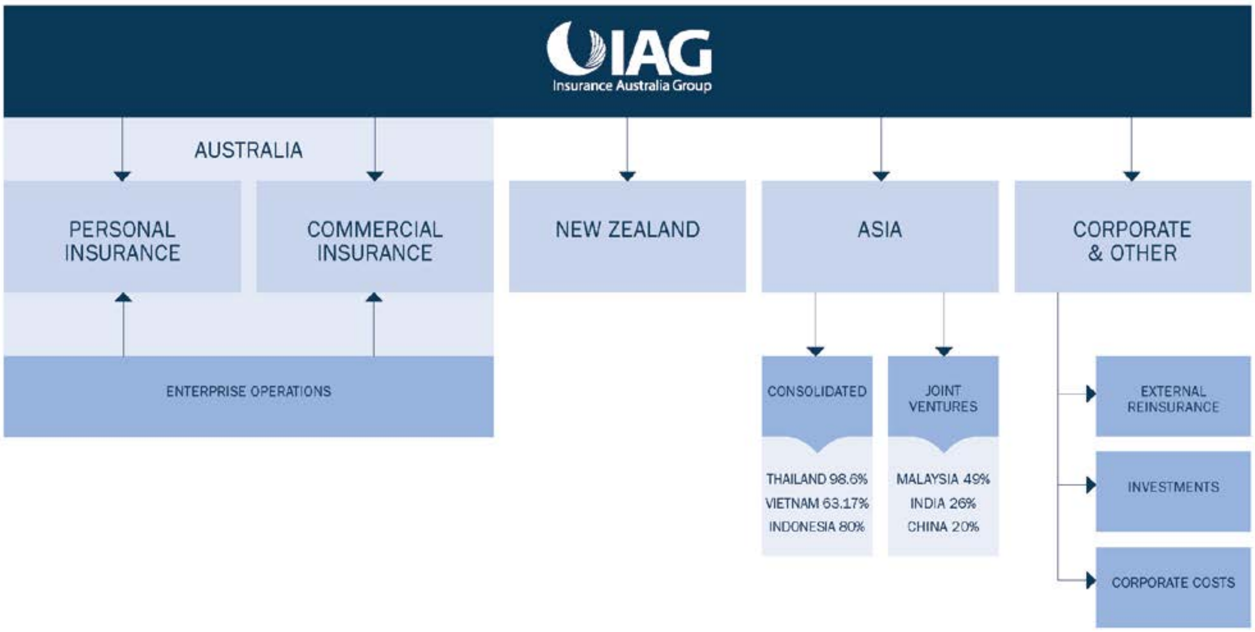
The Group targets a cash ROE of at least 1.5 times its weighted average cost of capital (WACC) on a through-the-cycle basis. This return is based on net profit after tax attributable to IAG shareholders, adjusted for the amortisation and impairment expense and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%. In FY15, the Group reported a cash ROE of 15.3%, compared to 23.0% in FY14.

3. GROUP RESULTS

RETURN ON EQUITY (ANNUALISED)



4. FY15 DIVISIONAL OVERVIEW



FY15 DIVISIONAL FINANCIAL PERFORMANCE

	Australia					
	Personal Insurance A$m	Commercial Insurance A$m	New Zealand A$m	Asia A$m	Corporate & Other A$m	Total A$m
Gross written premium	**5,614**	**3,192**	**2,267**	**353**	**14**	**11,440**
Gross earned premium	5,594	3,267	2,299	350	15	11,525
Reinsurance expense	(644)	(212)	(294)	(41)	(5)	(1,196)
Net earned premium	**4,950**	**3,055**	**2,005**	**309**	**10**	**10,329**
Net claims expense	(3,383)	(2,123)	(1,239)	(190)	(6)	(6,941)
Commission expense	(261)	(450)	(242)	(78)	(3)	(1,034)
Underwriting expense	(801)	(592)	(370)	(49)	(1)	(1,813)
Underwriting profit/(loss)	**505**	**(110)**	**154**	**(8)**	**-**	**541**
Investment income on technical reserves	283	203	62	13	1	562
Insurance profit	**788**	**93**	**216**	**5**	**1**	**1,103**
Profit/(loss) from fee based business	-	16	4	-	(1)	19
Share of profit from associates	-	-	-	16	-	16
Total divisional results	**788**	**109**	**220**	**21**	**-**	**1,138**
Insurance Ratios						
Loss ratio	68.3%	69.5%	61.8%			67.2%
Expense ratio	21.5%	34.1%	30.6%			27.6%
Commission ratio	5.3%	14.7%	12.1%			10.0%
Administration ratio	16.2%	19.4%	18.5%			17.6%
Combined ratio	89.8%	103.6%	92.4%			94.8%
Insurance margin	15.9%	3.0%	10.8%			10.7%

5. AUSTRALIAN OPERATIONS OVERVIEW

NEW AUSTRALIAN OPERATING MODEL / WESFARMERS INTEGRATION

New Australian operating model effective 1 July 2014

With effect from 1 July 2014, IAG implemented a new operating model for its Australian operations to create a more customer-focused and efficient organisation. The new model allows IAG to better leverage its scale and insurance expertise to deliver improved outcomes for its customers, partners, people and shareholders. Significant benefits are expected to be realised within a two-year timeframe, as the new operating model removes duplication and further improves IAG's management of procurement and supply chain activities.

Implementation of the new operating model has occurred in tandem with the integration of the former Wesfarmers business, the bulk of which is located in Australia. The combined initiative continues to progress to plan, with the Group achieving an overall benefit / synergy run rate of approximately $80m pre-tax by the conclusion of FY15. A relatively small part of this run rate improvement relates to the integration of the New Zealand portion of the former Wesfarmers business.

It remains the Group's expectation that this combined initiative will result in total pre-tax benefits / synergies of $230m per annum, with that run rate expected to be reached by the conclusion of FY16. The full financial benefits are expected to be seen in FY17.

Total one-off pre-tax costs of $220m are expected from implementation of this combined initiative. Over $200m of such costs has been recognised across FY14 and FY15, with the residual balance expected to be incurred in FY16.

ENTERPRISE OPERATIONS

Initial benefits realised in FY15, in line with plan

Enterprise Operations provides services that enable IAG's Australian customer-facing businesses to achieve their customer and partner strategies for growth and retention. A focus on efficient and effective service delivery, as well as innovation in delivering new services, supports Personal Insurance and Commercial Insurance in achieving their strategic objectives.

At inception, Enterprise Operations consisted of:

- Information technology;
- People and culture;
- Procurement and supply chain;
- Claims services;
- Programme delivery;
- Risk and legal; and
- Finance and technical services.

The cost of services provided by Enterprise Operations is reported within the respective financial results of Personal Insurance and Commercial Insurance.

In the 12 months since Enterprise Operations was created, the business has achieved:

- The successful integration of employees across IAG's existing businesses and the former Wesfarmers business, ensuring the right talent and capabilities exist to meet business demands;
- A significant amount of business restructuring to reduce duplication, while maintaining a high level of service delivery;

5. AUSTRALIAN OPERATIONS OVERVIEW

- Construction of frameworks to effectively leverage a shared service operating model. This has included the:
  - Creation of strong intra-business relationships;
  - Co-design of strategic objectives;
  - Introduction of mutual performance agreements to meet customer and partner needs; and
  - Pursuit of collaborative ways of working and management of service demands;
- The creation of a programme of work to leverage IAG's increased scale and best practice across the Australian businesses;
- The pursuit of opportunities to deliver 'best for IAG' differentiating services, in terms of quality and range; and the
- Introduction of appropriate metrics and governance to track costs and service delivery, while driving accountability.

IAG LABS

On 31 July 2015, IAG announced the creation of a new division, IAG Labs, which will be responsible for digital and innovation for IAG and its brands. This step recognises the speed at which the shift to digital is occurring and the significant opportunity to evolve quickly in this area, ensuring the Group continues to meet customer needs in this rapidly changing environment. It builds on earlier work where the Group has been looking at how it can take advantage of the shift to digital and be more inventive.

IAG Labs created, a digital hub for innovation

IAG Labs brings together a number of existing functions, as well as creating new areas for exploration. These include:

- Technology – bringing together existing technology and project management teams;
- Customer – creating a new customer function to provide an enterprise-wide view of customer segmentation, insights, human-centred design, product and service research and development;
- Digital – bringing together product and service development, including mobile and web development and social media platforms;
- Data and analytics – focused on maximising data and analytics to enhance the customer experience; and
- Venturing – focused on new business opportunities and disruptive technology.

AUSTRALIAN INSURANCE MARKET REGULATION AND REFORM

Regulation and regulatory frameworks play a critical role in shaping the business environment in which economic activity takes place. Several legislative reviews and inquiries are underway with potential implications for the insurance industry:

The industry remains subject to a number of legislative reviews

- The Productivity Commission's Inquiry into National Disaster Funding Arrangements has examined the scope of spending on natural disaster mitigation, resilience and recovery initiatives, and the risk management measures available or taken by asset owners. A Final Report was delivered to the Australian Government in December 2014 and released on 1 May 2015. Following consultations with State and Territory Governments, the Australian Government will provide a response in late 2015;

5. AUSTRALIAN OPERATIONS OVERVIEW

- The Financial System Inquiry's Final Report (November 2014) examined policy measures that support access and choice in general insurance and improve product disclosure for consumers, including insurance price comparison websites. A final government response is expected in late 2015;
- The Competition Policy Review included recommendations relating to the principles of competitive neutrality and statutory insurance schemes, potentially opening them up to competition. Submissions were made in November 2014 and a government response is expected in late 2015;
- The Australian Government established the Northern Australian Insurance Affordability Taskforce on 8 May 2015 to explore options for reducing home, contents and strata insurance premiums in Northern Australia. The Taskforce released an Interim Report in August 2015 and is expected to issue a Final Report at the end of November 2015. The Interim Report canvasses a number of issues that need to be considered in assessing the feasibility of the options to lower premiums. These include a mutual insurer offering cyclone cover to individuals, a reinsurance pool for cyclone risk, improving incentives for mitigation, and other options including a direct subsidy;
- The Australian Government Taxation Discussion Paper was released on 30 March 2015. Submissions were made on 1 June 2015, with a Taxation White Paper to be released at the end of 2015;
- In July 2014, the NSW Standing Committee on Law and Justice published its 12th review of the exercise of the functions of the Motor Accidents Authority. The review produced 16 recommendations for the NSW Government to consider including: that it consults with stakeholders to identify barriers to new entrants and means of encouraging greater competition in the NSW CTP scheme; that increased reporting on scheme performance be provided; and that legal cost regulations be reviewed. As part of the Government's response announced in January 2015, a review of insurer profits in the NSW CTP scheme is being conducted. This review includes an examination of scheme design and competition issues / barriers to entry, as well as opportunities for improving the regulation of the scheme; and
- The South Australian Government has announced its intention to open up the state's CTP market to private competition from 1 July 2016. A new market-based model was endorsed in May 2015 which will see CTP insurance provided by a set number of eligible insurers for the first three years, before transitioning to a fully competitive market. Premium prices are to be fixed for the first three years, inclusive of CPI-like increases, and governed by an industry-specific CTP regulator. The South Australian CTP scheme's current annual premium pool is estimated to be around $400m.

6. PERSONAL INSURANCE

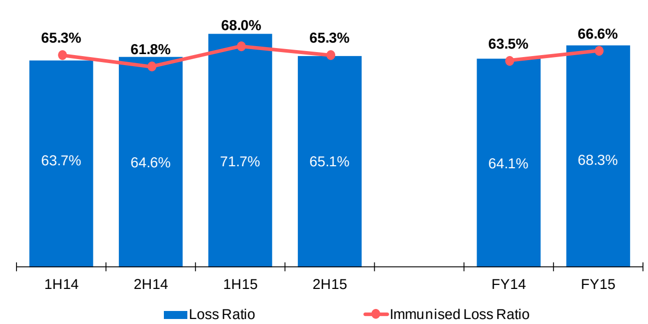
FINANCIAL PERFORMANCE

	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Gross written premium	**2,686**	**2,649**	**2,802**	**2,812**	**5,335**	**5,614**
Gross earned premium	2,732	2,663	2,814	2,780	5,395	5,594
Reinsurance expense	(334)	(303)	(365)	(279)	(637)	(644)
Net earned premium	**2,398**	**2,360**	**2,449**	**2,501**	**4,758**	**4,950**
Net claims expense	(1,527)	(1,525)	(1,755)	(1,628)	(3,052)	(3,383)
Commission expense	(123)	(127)	(129)	(132)	(250)	(261)
Underwriting expense	(364)	(379)	(388)	(413)	(743)	(801)
Underwriting profit	**384**	**329**	**177**	**328**	**713**	**505**
Investment income on technical reserves	83	220	214	69	303	283
Insurance profit	**467**	**549**	**391**	**397**	**1,016**	**788**

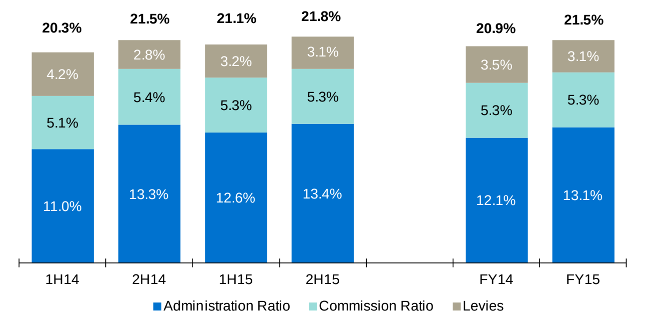
Insurance Ratios	1H14	2H14	1H15	2H15	FY14	FY15
Loss ratio	63.7%	64.6%	71.7%	65.1%	64.1%	68.3%
Immunised loss ratio	65.3%	61.8%	68.0%	65.3%	63.5%	66.6%
Expense ratio	20.3%	21.5%	21.1%	21.8%	20.9%	21.5%
Commission ratio	5.1%	5.4%	5.3%	5.3%	5.3%	5.3%
Administration ratio	15.2%	16.1%	15.8%	16.5%	15.6%	16.2%
Combined ratio	84.0%	86.1%	92.8%	86.9%	85.0%	89.8%
Immunised combined ratio	85.6%	83.3%	89.1%	87.1%	84.4%	88.1%
Insurance margin	19.5%	23.3%	16.0%	15.9%	21.4%	15.9%

INSURANCE RATIOS

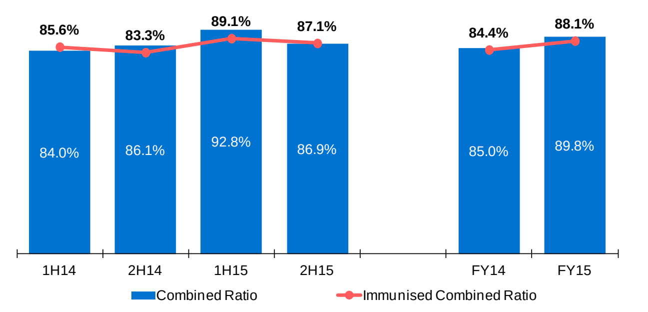
LOSS RATIO



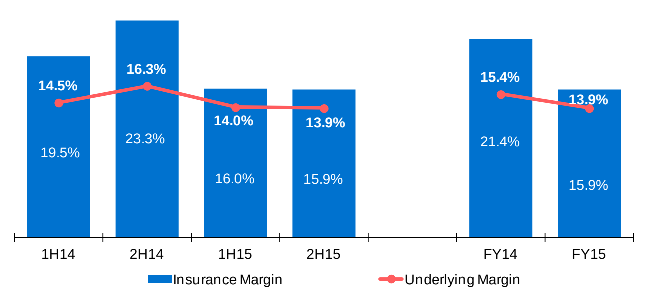
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

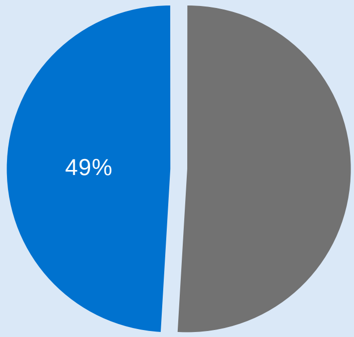


6. PERSONAL INSURANCE

EXECUTIVE SUMMARY

- Personal Insurance comprises Australian personal lines insurance products, including compulsory third party (CTP)
- From FY15, it contains personal lines of the former Wesfarmers business, including Coles
- Full suite of personal lines value propositions to accommodate changing customer behaviours
- FY15 GWP growth of 5.2%, driven by addition of former Wesfarmers business
- Modest like-for-like short tail GWP growth, in both motor and home
- Motor volume growth broadly in line with system
- Strong performance maintained, with underlying margin of 13.9%
- Reported margin of 15.9% includes higher reserve releases offset by adverse peril costs

Personal Insurance - % Group GWP



PERSONAL INSURANCE

The Personal Insurance division was established on 1 July 2014, as part of the new operating model implemented in Australia. It comprises:

- The motor, home and CTP operations which previously represented the bulk of the Australia Direct division;
- Personal lines which were previously part of the affinity and financial institution partnerships and broker and agent channels within the Australia Intermediated division; and
- Personal lines of the former Wesfarmers business, including Coles.

From 1 July 2014, Enterprise Operations provided Personal Insurance with support services, such as information technology, people and culture, and procurement and supply chain. The cost of relevant services provided by Enterprise Operations is reported within the financial results of Personal Insurance.

Market-leading presence in Australian personal lines

PREMIUMS

Personal Insurance's GWP increased by 5.2%, to $5,614m in FY15 (FY14: $5,335m). This largely reflects the first-time inclusion of personal lines of the former Wesfarmers business, including volumes related to the Coles distribution agreement. Like-for-like GWP growth was modest and was derived from a mixture of volume and rate.

GWP growth of 5.2%, largely reflecting former Wesfarmers volumes

The division's overall GWP performance continued to be characterised by high retention levels, coupled with good conversion of limited new business opportunities.

Total short tail GWP was $4,758m, an increase of 6.8% compared to FY14. The majority of this was derived from incoming former Wesfarmers business volumes. Higher growth was achieved in all main segments in 2H15 (vs. 2H14), compared to 1H15 (vs. 1H14).

Short tail GWP growth of 6.8%, including stronger 2H15 outcome of 7.8%

Motor GWP increased by 7.5%, compared to FY14. Excluding Wesfarmers-related volumes, modest growth was achieved. Volume growth was broadly in line with system, with some slight offset from lower average rates, notably in Queensland and Western Australia. The market environment remained one of negligible underlying claims inflation and reduced average vehicle values.

6. PERSONAL INSURANCE

GWP	1H14	2H14	1H15	2H15	FY14	FY15	GWP Growth FY15 vs FY14
Motor	1,173	1,189	1,254	1,286	2,362	2,540	7.5%
Home	977	946	1,026	1,010	1,923	2,036	5.9%
Niche & Other	92	77	93	89	169	182	7.7%
Total Short Tail	**2,242**	**2,212**	**2,373**	**2,385**	**4,454**	**4,758**	**6.8%**
Long Tail	444	437	429	427	881	856	(2.8%)
Total GWP	**2,686**	**2,649**	**2,802**	**2,812**	**5,335**	**5,614**	**5.2%**

Home GWP was 5.9% higher than FY14, largely reflecting the first-time consolidation of former Wesfarmers volumes. Excluding the former Wesfarmers business, modest home GWP growth was achieved. This comprised higher rates, partially offset by weaker volumes, specifically in NSW and Victoria.

Due renewal levels for both motor and home remained high and exceeded those achieved in FY14.

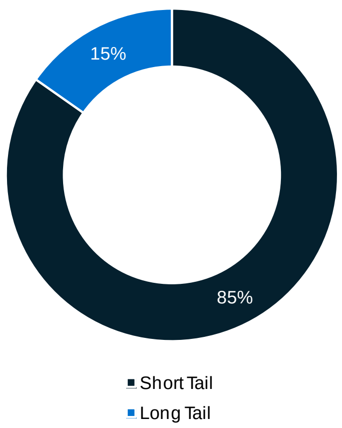
Short tail due renewal levels exceeded FY14

The Business Partners portion of the business (including affinity and financial institutions) faced increased competition, with direct players and challenger brands placing pressure on the pricing of personal lines products. Reported GWP also reflected the cessation from the end of January 2015 of the relationship with Credit Union Australia, which contributed over $20m of GWP in 1H15.

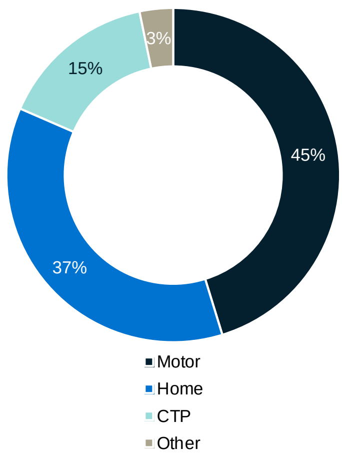
The Coles business, which offers both motor and home products, continued to exhibit strong growth, off a relatively small base.

Niche and other short tail lines, comprising boat, caravan, classic car, credit card, warranty and other specialty insurance products, generated sound GWP growth. This was despite the absence of the Telstra mobile phone insurance relationship which was terminated towards the end of 1H14 and contributed GWP of nearly $15m in that period.

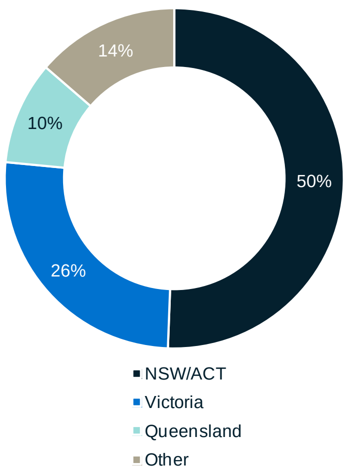
FY15 GWP BY TAIL



FY15 GWP BY CLASS



FY15 SHORT TAIL GWP BY STATE



Long tail (primarily CTP) GWP reduced by 2.8% compared to FY14, largely owing to:

- Personal Insurance's withdrawal from the Queensland CTP market with effect from 1 January 2014, due to unsatisfactory performance. Related GWP in 1H14 was $23m; and

Lower CTP GWP influenced by exit from Queensland market

6. PERSONAL INSURANCE

- A further reduction in ACT CTP market share, following the entry of three brands of a competing entity in FY14. Before this, Personal Insurance had been the sole provider of CTP products in the ACT.

Excluding Queensland CTP, long tail GWP was broadly flat in FY15.

In NSW, Personal Insurance's share of CTP registrations (on a 12-month rolling average basis) reduced to 35.6%, from 36.4% in the preceding 12-month period. A net increase of approximately 2% in average premium rates was implemented towards the end of 1H15.

Following the entry of new competition, Personal Insurance's market share in the ACT CTP market declined to approximately 77% by the end of FY15, compared to 89% at the end of FY14, which was in line with expectations.

Personal Insurance continues to enhance its comprehensive digital sales and service offering. This includes an online self service centre and an integrated digital multi-channel platform, allowing customers to access various services across all devices. Personal Insurance's online sales channel registered substantial growth in FY15, with like-for-like volumes increasing by around 20%.

Notable enhancements to Personal Insurance's overall customer offering during FY15 were the release of new funeral and income protection products, both underwritten by a third party. FY15 results also benefited from the new travel insurance product and improved loyalty scheme, both of which were launched late in FY14.

CTP QUOTA SHARE AND ADC

CTP quota share and ADC driven by capital efficiency considerations

With effect from 1 July 2013, IAG entered into a quota share agreement in respect of 30% of its combined CTP book for a minimum 3-year period. The impact of the CTP quota share agreement on Personal Insurance's FY15 reported insurance margin was modestly positive and similar to that of FY14.

From 1 July 2014, an adverse development cover (ADC) was entered into in respect of the CTP portfolio, providing protection for 30% of any reserve deterioration above the central estimate for losses incurred prior to 30 June 2013. This complements the quota share agreement and was transacted with the same counterparty.

The decision to enter into the CTP quota share and ADC agreements was driven by Group capital efficiency considerations. The cumulative impact of the quota share and ADC arrangements has been a reduction in the Group's regulatory capital requirement of approximately $150m.

REINSURANCE EXPENSE

Reinsurance expense was $644m in FY15, a 1.1% increase compared to FY14 ($637m). The year-on-year movement contains:

- A one-off expense from the recognition of the CTP ADC on 1 July 2014;
- The impact of higher business volumes, largely as a result of the inclusion of the former Wesfarmers business;
- A lower CTP quota share expense (ex-ADC), derived from the exit from the Queensland market and lower market share in the ACT; and
- Lower catastrophe cover costs, from a combination of the calendar 2014 and 2015 renewals.

6. PERSONAL INSURANCE

CLAIMS

Increased loss ratio driven by significantly higher perils experience

Personal Insurance reported a higher immunised loss ratio of 66.6% in FY15 (FY14: 63.5%). This is largely explained by the significantly higher incidence of natural perils, notably in 2H15 compared to 2H14.

The reported loss ratio of 68.3% is also higher than that of FY14 (64.1%), accentuated by an unfavourable risk free discount rate adjustment of $84m. The corresponding effect in FY14 was an unfavourable impact of $29m.

The underlying claims performance was consistent with FY14.

Reserve Releases

Reserve releases of $229m were higher than those reported in FY14 ($179m), and were sourced mainly from the CTP portfolios. This follows further favourable experience against existing underlying assumptions, notably claim size and inflation.

FY15 reserve releases amounted to 4.6% of NEP, with a higher level of 6.6% identified in 2H15 owing to a sustained focus on settling older claims coupled with lower wage inflation. Future reserve release levels are expected to moderate.

RESERVE RELEASES	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	130	49	65	164	179	229
Impact on insurance margin	**5.4%**	**2.1%**	**2.7%**	**6.6%**	**3.8%**	**4.6%**

Natural Perils

Severe natural perils activity, notably in 2H15

Losses from natural perils (net of reinsurance) totalled $559m, which was just over $100m higher than the $458m allowance for the period. The incidence of natural perils was particularly severe in 2H15.

There were four significant peril events for Personal Insurance during FY15:

- The Brisbane hail storm in late November 2014 (net claim cost of approximately $120m);
- Tropical Cyclone Marcia in February 2015 (over $40m);
- The east coast low which affected NSW and Queensland in April 2015 (~$200m); and
- The Anzac Day hail storm in Sydney in April 2015 (over $20m).

Personal Insurance's net natural peril claims cost was also after allocation of nearly $80m of the FY15-specific reinsurance cover which provided protection of $150m above $700m on a Group-wide basis and which was fully utilised.

NATURAL PERILS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Natural peril claim costs	(235)	(125)	(245)	(314)	(360)	(559)
Natural peril allowance	224	224	229	229	448	458
Impact on insurance profit	**(11)**	**99**	**(16)**	**(85)**	**88**	**(101)**
Impact on insurance margin	**(0.5%)**	**4.2%**	**(0.6%)**	**(3.4%)**	**1.8%**	**(2.0%)**

6. PERSONAL INSURANCE

Claim Experience

Personal Insurance's underlying claims performance was similar to FY14, and was characterised by:

- Modest inflation in average underlying motor collision costs;
- A slight increase in motor collision frequency, after allowing for business growth;
- A modest increase in the frequency and severity of escape of water claims applicable to home; and
- The motor repair relationship model continuing to deliver favourable customer and quality outcomes, while minimising inflationary repair cost pressures. This is being enhanced through expansion into non-urban areas and the provision of customer access offerings across all brands.

The NSW CTP market continued to encounter a higher than expected increase in claim lodgements across FY15. This has been most apparent in the lower severity classes, where an increased level of legal representation continued to be experienced.

Underlying claims performance similar to FY14

EXPENSES

Personal Insurance's reported expenses predominantly comprise underwriting costs, and totalled $1,062m in FY15, compared to $993m in FY14. The higher expenditure is explained by:

- Costs associated with the first-time inclusion of volumes related to the former Wesfarmers business;
- Increased reinvestment in the business, including specific projects directed at improving customer service, product design and people development; and
- Increased marketing and advertising expenditure.

Increased marketing outlay and project expenditure was skewed to the second half of the financial year.

The reported expense ratio increased slightly to 21.5% (FY14: 20.9%). On an ex-levies basis, Personal Insurance's administration ratio was 13.1% (FY14: 12.1%), reflecting the increased reinvestment in the business and the higher cost level applicable to the former Wesfarmers business.

Increased reinvestment in the business

INSURANCE PROFIT

Personal Insurance reported an insurance profit of $788m for FY15, compared to $1,016m in FY14. This equates to a lower reported insurance margin of 15.9% (FY14: 21.4%).

At an underlying level, Personal Insurance's performance remained strong across the year. The lower underlying margin of 13.9% (FY14: 15.4%) reflects the combination of:

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

The main influence on the lower reported margin was the significantly higher level of net natural peril claim costs, which resulted in a 3.8% adverse margin movement after allowance, compared to FY14. The combination of higher prior period reserve releases and a lower favourable credit spread effect had a mildly negative impact on the reported margin, compared to FY14.

Strong underlying margin of 13.9%

6. PERSONAL INSURANCE

INSURANCE MARGIN IMPACTS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	130	49	65	164	179	229
Natural perils	(235)	(125)	(245)	(314)	(360)	(559)
Natural peril allowance	224	224	229	229	448	458
Credit spreads	25	40	23	(4)	65	19
Reserve releases	5.4%	2.1%	2.7%	6.6%	3.8%	4.6%
Natural perils	(9.8%)	(5.3%)	(10.0%)	(12.6%)	(7.6%)	(11.3%)
Natural peril allowance	9.3%	9.5%	9.4%	9.2%	9.4%	9.3%
Credit spreads	1.0%	1.7%	0.9%	(0.2%)	1.4%	0.4%

MARKET ENVIRONMENT AND OUTLOOK

Against a backdrop of expected economic growth of around 2.5%, continued modest growth in personal insurance demand is expected over the course of FY16.

The outlook remains one of negligible to modest rate increases, influenced by low underlying claims inflation, the relative absence of input cost pressures (including reinsurance) and lower average vehicle values.

In addition, aggressive customer acquisition by established players and challenger brands is expected to limit premium growth prospects. In this environment, Personal Insurance is providing tailored propositions designed to address the emerging needs of most customer segments.

Personal Insurance is focused on delivering an increased range of customer value propositions through its brands, reflecting the changes in customer behaviours being observed. Further to the provision of an expanded suite of customer options, a data analytics company has been acquired to enhance the understanding of customers and risk, and a range of ventures is being explored to extend insurance coverage within the community.

The business continues to monitor the increased level of lower severity claims with legal representation in NSW CTP, where profitability is under increased pressure.

Personal Insurance's focus on customer experience and cost effectiveness is expected to support continued strong business performance and the maintenance of a market leading position.

Personal Insurance is expected to continue to perform well, in a low growth environment

7. COMMERCIAL INSURANCE

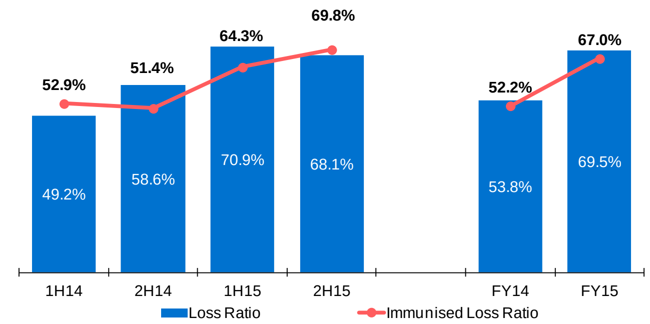
FINANCIAL PERFORMANCE

	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Gross written premium	**1,052**	**1,216**	**1,514**	**1,678**	**2,268**	**3,192**
Gross earned premium	1,099	1,076	1,673	1,594	2,175	3,267
Reinsurance expense	(70)	(75)	(122)	(90)	(145)	(212)
Net earned premium	**1,029**	**1,001**	**1,551**	**1,504**	**2,030**	**3,055**
Net claims expense	(506)	(587)	(1,099)	(1,024)	(1,093)	(2,123)
Commission expense	(157)	(157)	(229)	(221)	(314)	(450)
Underwriting expense	(210)	(202)	(301)	(291)	(412)	(592)
Underwriting profit/(loss)	**156**	**55**	**(78)**	**(32)**	**211**	**(110)**
Investment income on technical reserves	34	126	180	23	160	203
Insurance profit/(loss)	**190**	**181**	**102**	**(9)**	**371**	**93**
Profit/(loss) from fee based business	11	(2)	9	7	9	16
Total divisional result	**201**	**179**	**111**	**(2)**	**380**	**109**

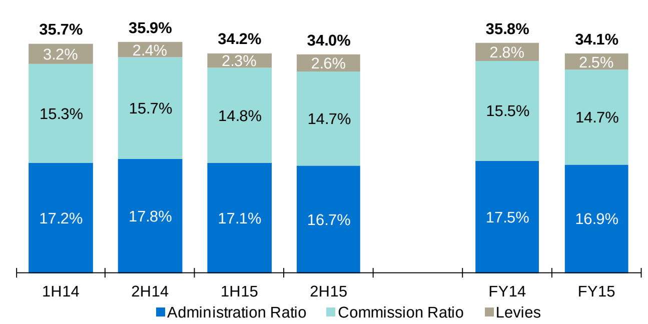
Insurance Ratios	1H14	2H14	1H15	2H15	FY14	FY15
Loss ratio	49.2%	58.6%	70.9%	68.1%	53.8%	69.5%
Immunised loss ratio	52.9%	51.4%	64.3%	69.8%	52.2%	67.0%
Expense ratio	35.7%	35.9%	34.2%	34.0%	35.8%	34.1%
Commission ratio	15.3%	15.7%	14.8%	14.7%	15.5%	14.7%
Administration ratio	20.4%	20.2%	19.4%	19.3%	20.3%	19.4%
Combined ratio	84.9%	94.5%	105.1%	102.1%	89.6%	103.6%
Immunised combined ratio	88.6%	87.3%	98.5%	103.8%	88.0%	101.1%
Insurance margin	18.5%	18.1%	6.6%	(0.6%)	18.3%	3.0%

INSURANCE RATIOS

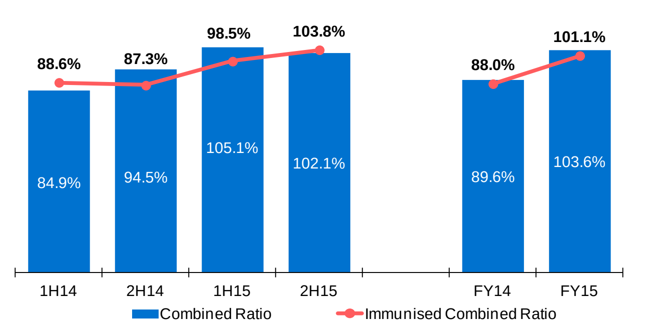
LOSS RATIO



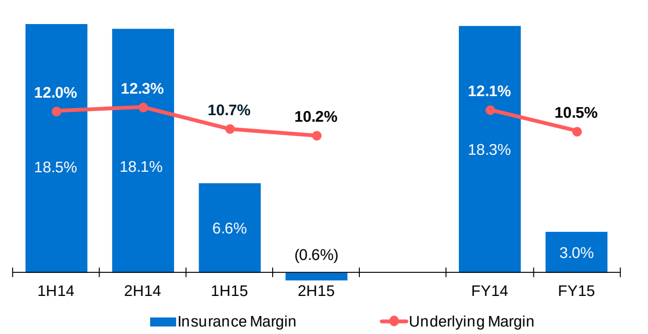
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

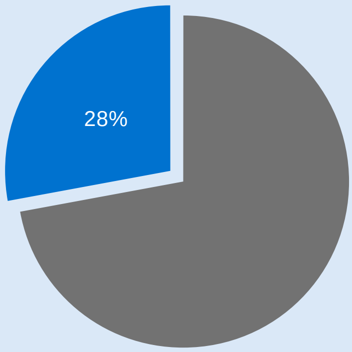


7. COMMERCIAL INSURANCE

EXECUTIVE SUMMARY

- Commercial Insurance comprises all commercial insurance products sold in Australia under the CGU, NRMA, RACV, SGIO and SGIC brands, as well as niche products sold through brands such as Swann Insurance and WFI
- FY15 GWP growth of over 40% reflects first-time inclusion of former Wesfarmers business
- GWP outcome also influenced by soft commercial market conditions
- Volumes in key portfolios, notably SME, have remained strong
- Integration of former Wesfarmers business proceeding to plan
- Underlying double digit margin sustained
- Continued investment in sales and digital capability translating into improved partner relationships and growth opportunities

Commercial Insurance - % Group GWP



COMMERCIAL INSURANCE

The Commercial Insurance division was established on 1 July 2014, as part of the new operating model implemented in Australia. It comprises:

- The commercial insurance operations which previously represented the majority of the Australia Intermediated division;
- The Swann Insurance operations, which were also previously part of Australia Intermediated;
- The Retail Business Insurance (RBI) operations which were formerly part of the Australia Direct division; and
- The Australian commercial lines of the former Wesfarmers business.

From 1 July 2014, Enterprise Operations provided Commercial Insurance with support services, such as information technology, people and culture, and procurement and supply chain. The cost of relevant services provided by Enterprise Operations is reported within the financial results of Commercial Insurance.

Market-leading presence in Australian commercial lines, following Wesfarmers acquisition

PREMIUMS

Commercial Insurance GWP of $3,192m represented growth of 40.7% over FY14 ($2,268m). This reflects the first-time inclusion of the former Wesfarmers business, which has delivered a market-leading position in the Australian commercial insurance market.

Commercial Insurance encountered cyclically softer market conditions over the course of FY15, resulting in a modest contraction in reported GWP on a like-for-like (ex-Wesfarmers) basis. While partly reflecting lower input costs which have been passed on to customers, there has also been evidence that general business conditions have resulted in lower average premiums, predominantly on new business.

Market conditions during the key June 2015 renewal period continued to reflect the tougher market conditions evident in the preceding months. Excluding the former Wesfarmers business, volume counts in this period were in line with those of the comparable portion of FY14.

GWP growth in 2H15 was 38.0% against the comparable half in FY14. The lower growth rate compared to 1H15 reflects the cumulative effect of softer market conditions, as well as the impact of lower renewal rates in workers' compensation in Western Australia and new competition in strata.

GWP growth of 40.7%, driven by inclusion of former Wesfarmers business

7. COMMERCIAL INSURANCE

As evident in prior periods, rate reductions have been most prevalent in the large corporate property segment, where strong competition made new business difficult to obtain at acceptable pricing levels. Corporate property represented less than 2% of Commercial Insurance's GWP in FY15, and renewal rights to a significant part of it will transfer to Berkshire Hathaway over the course of FY16 under the terms of the strategic relationship.

In the key SME segment, competition placed pressure on premium rates for new business, however renewal volumes continued to hold up at high levels, consistent with FY14. Overall volumes displayed modest like-for-like growth, year-on-year.

The WFI and Lumley books experienced a decline in new business and retention levels, with the attrition rate at the upper end of the 5-10% range anticipated as part of the integration process.

Overall workers' compensation GWP was relatively flat compared to FY14. Western Australian workers' compensation rates were lower in FY15, driven by gazetted rate reductions and lower average wage growth. This was offset by GWP growth in the Northern Territory and strong retention rates in Tasmania.

Despite a backdrop of continued soft market conditions in 2H15, some portfolios achieved like-for-like volume growth, most notably the professional risk and marine portfolios, which grew by 4% and 8% respectively.

Long tail classes represented approximately 28% of Commercial Insurance's GWP in FY15.

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

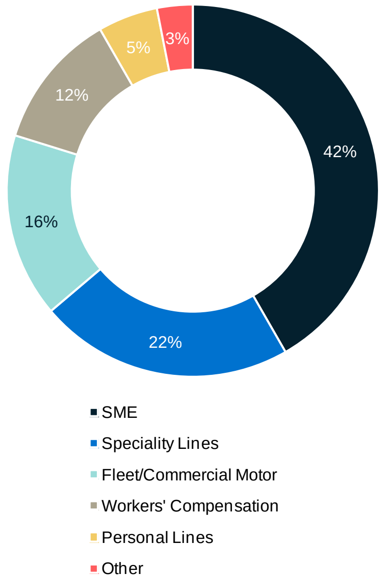
Commercial Insurance continues to focus on strengthening its partnerships and improving the quality of service delivered, with initiatives including:

- Replacement of the core policy administration and distribution systems, with the first policies being transferred in June 2015;
- An agency growth strategy, including complementary acquisitions such as Dynamiq, which offers risk and emergency management services;
- Continued emphasis on how customers do business with Commercial Insurance, including an increased focus on digital and platform capability; and
- Initiatives to ensure market leading delivery of customer relationship management, mobile and data solutions for customers and partners.

Commercial Insurance's strategy is translating into improved partner relationships and service levels, as reflected in growing industry recognition:

- CGU was voted 2015 'Insurer of the Year' by brokers in Insurance Business magazine's annual 'Brokers on Insurers Survey', winning six of the 13 categories surveyed and claiming a top-three position in a further five categories;
- During FY15, CGU won 'Australia's Best Customer Experience Company' at the Best Customer Experience 2014 awards; and
- In August 2015, CGU was named 'Large General Insurance Company of the Year' at the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) 2015 Australian Insurance Industry Awards.

FY15 GWP BY CLASS



7. COMMERCIAL INSURANCE

REINSURANCE EXPENSE

Commercial Insurance's FY15 reinsurance expense was $212m, a 46.2% increase on FY14. This was largely driven by the addition of the former Wesfarmers business.

Offsetting factors were the influence of favourable reinsurance market conditions on the cost of the calendar 2014 and 2015 catastrophe renewals, and realisation of initial synergy benefits from including the former Wesfarmers business in the Group's main catastrophe programme from 1 January 2015. As a result, the increase in reinsurance expense in 2H15 (compared to 2H14) was only 20%.

Reinsurance expense as a proportion of GWP increased to 6.6% (FY14: 6.4%), as a result of business mix changes following inclusion of the former Wesfarmers business, but fell to 5.4% in 2H15 as synergies were realised.

Initial Wesfarmers-related reinsurance synergies evident in 2H15

CLAIMS

Commercial Insurance's FY15 immunised loss ratio of 67.0% was significantly higher than the 52.2% recorded in FY14. This reflects the combination of:

- A substantial increase in net natural peril claim costs as a proportion of NEP, more than tripling to nearly 14%;
- Lower reserve releases, especially as a proportion of NEP, as they moved closer to longer term expectations;
- Relatively flat frequency;
- A higher than normal incidence of large losses, particularly for fire-related and liability claims; and
- Inclusion of the higher loss ratio applicable to the former Wesfarmers business.

While the benefits of improved underwriting, higher claim deductibles and indemnity cost savings are still being achieved, their impact on underlying claims performance has been more than offset by the rate reductions contributing to lower like-for-like NEP and the higher incidence of large losses.

The reported loss ratio increased to 69.5% (FY14: 53.8%), and contains an unfavourable risk free discount rate adjustment of $76m. This compares to a $34m unfavourable effect on the claims expense in FY14.

Higher underlying loss ratio includes adverse large loss experience

Reserve Releases

Prior period reserve releases of $68m were 13% lower than those reported in FY14 ($78m), and represented 2.2% of NEP. These releases continue to reflect favourable claims performance in a low inflation environment across the long tail portfolios of workers' compensation, professional risks and liability, but are now closer to the Group's long term expectation of 1%.

Lower reserve releases, closer to long term expectation

RESERVE RELEASES	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	55	23	25	43	78	68
Impact on insurance margin	**5.3%**	**2.3%**	**1.6%**	**2.9%**	**3.8%**	**2.2%**

7. COMMERCIAL INSURANCE

Natural Perils

Net natural peril claim costs climbed to $426m in FY15. This outcome was $278m higher than the related allowance, and $339m higher than the experience in FY14, with the incidence of natural perils particularly severe in 2H15.

Significantly higher peril activity in FY15

While partly derived from the inclusion of the former Wesfarmers business, the substantial increase for Commercial Insurance was also influenced by four significant peril events during FY15:

- The Brisbane hail storm in late November 2014 (net claim cost of over $80m);
- Tropical Cyclone Marcia in February 2015 (~$90m);
- The east coast low which affected NSW and Queensland in April 2015 (~$50m); and
- The Anzac Day hail storm in Sydney in April 2015 (over $30m).

The Tropical Cyclone Marcia and Anzac Day hail storm events had a particularly high Commercial Insurance component, compared to Personal Insurance, reflecting the nature of the regions and risks affected.

Commercial Insurance's net natural peril claims cost was also after allocation of over $60m of the FY15-specific reinsurance cover which provided protection of $150m above $700m on a Group-wide basis and which was fully utilised.

There were no significant events in FY14.

NATURAL PERILS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Natural peril claim costs	(51)	(36)	(164)	(262)	(87)	(426)
Natural peril allowance	59	60	74	74	119	148
Impact on insurance profit	**8**	**24**	**(90)**	**(188)**	**32**	**(278)**
Impact on insurance margin	**0.7%**	**2.4%**	**(5.8%)**	**(12.5%)**	**1.6%**	**(9.1%)**

EXPENSES

Reported expenses, comprising commission and underwriting costs, totalled $1,042m in FY15, compared to $726m in FY14. The increase in expenditure was driven by the inclusion of costs associated with the former Wesfarmers business. It also reflects continued reinvestment in the business, notably in the areas of core systems replacement and the delivery of systems innovation.

Improved cost ratio evident in FY15

While costs have increased, the expense ratio has improved slightly on both an overall basis, to 34.1% (FY14: 35.8%), and on an ex-levies basis, to 31.6% (FY14: 33.0%). Contributory factors were:

- Lower profit share payments to intermediaries compared with FY14; and
- Initial synergies from integration of the former Wesfarmers business and efficiencies from the new operating model.

Wesfarmers Integration

The integration of the Wesfarmers business is progressing in line with expectations. Activity completed to date includes:

- The implementation of new operating structures, consolidating all functions including back office, product, pricing, claims, sales and distribution teams;
- Supplier review and procurement consolidation;

7. COMMERCIAL INSURANCE

- CGU being maintained as the main brand for intermediated business, and WFI for niche and direct business;
- Policy migration of the Lumley business onto CGU systems;
- Alignment of former Lumley products with CGU products using a 'best of both' approach; and
- Proactive engagement with broker partners through the transition phase to confirm points of contact and default product offerings, while providing certainty and confidence.

INSURANCE PROFIT

Commercial Insurance reported an insurance profit of $93m, a substantial decrease compared to FY14 ($371m). This equates to a reported insurance margin of 3.0% (FY14: 18.3%).

The lower reported margin reflects the net effect of:

- A substantially higher net natural peril claim cost of $426m, well in excess of allowance;
- A $10m reduction in prior period reserve releases;
- A lower, but still favourable, credit spread movement of $14m (FY14: $35m); and
- The first-time inclusion of the lower margin former Wesfarmers business.

Commercial Insurance produced a satisfactory FY15 underlying margin of 10.5%, compared to 12.1% in FY14. This decline is a function of incorporating the lower margin former Wesfarmers business and the impact of softer commercial market conditions in Australia.

Double digit underlying margin sustained, despite tougher market conditions

INSURANCE MARGIN IMPACTS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	55	23	25	43	78	68
Natural perils	(51)	(36)	(164)	(262)	(87)	(426)
Natural peril allowance	59	60	74	74	119	148
Credit spreads	14	21	17	(3)	35	14
Reserve releases	5.3%	2.3%	1.6%	2.9%	3.8%	2.2%
Natural perils	(5.0%)	(3.6%)	(10.6%)	(17.4%)	(4.3%)	(13.9%)
Natural peril allowance	5.7%	6.0%	4.8%	4.9%	5.9%	4.8%
Credit spreads	1.4%	2.1%	1.1%	(0.2%)	1.7%	0.5%

FEE BASED INCOME

Commercial Insurance generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes that are underwritten by the respective State governments. In FY15, net income from fee based operations was $16m, compared to $9m in FY14.

While the standard fees covering expenses are reasonably predictable, the total reported fee based result will continue to be volatile on a half-by-half basis owing to the receipt of performance fees and prior year experience adjustments paid or charged by the State bodies. Prior year payments tend to be received in the opening half of Commercial Insurance's financial year, while performance fees are earned evenly across the year.

Higher fee based result reflecting benefits of restructuring and absence of related costs

7. COMMERCIAL INSURANCE

The FY15 result contained $6m of prior period fee income, which was in line with FY14. Excluding this income, the underlying result was $7m higher than FY14, despite reduced fees associated with prior year changes to the NSW regulator remuneration model. This was more than offset by expense savings from past restructuring activity, and the absence of the $4m of restructuring costs and project spend incurred in FY14.

Effective 1 January 2015, Commercial Insurance successfully re-tendered for the NSW workers' compensation scheme and maintained its market share.

MARKET ENVIRONMENT AND OUTLOOK

The challenging Australian commercial market conditions experienced in FY15 are expected to continue into FY16, with the rate of system growth expected to be low single digit.

Insurance margins, particularly in long tail lines, are under pressure owing to low investment returns and an absence of price increases due to the competitive environment.

Increased levels of competition have been exacerbated by continued excess capacity and new entrants in the market. The competitive landscape is expected to evolve and increase in complexity, as brokers and reinsurers continue to move along the value chain. The changing face of distribution is being driven by the industry embracing digital technology, growth in underwriting agencies and a focus on more efficient and effective channels.

The outlook for FY16 is expected to remain challenging for Commercial Insurance, given limited growth prospects, pressure on pricing and little respite from current record low interest rates. These headwinds are expected to be partially offset by the flow through of further benefits from the integration of the former Wesfarmers business and the realisation of efficiencies from the new operating model in Australia.

Commercial Insurance is actively investing in adjacent businesses to complement and broaden its traditional services. This will result in a more targeted offering in areas such as digital direct and underwriting agencies, while capitalising on the strong brand reputation established with intermediaries, as evidenced by recent industry surveys.

Continuation of challenging conditions expected in FY16, offset by further Wesfarmers-related synergies

8. NEW ZEALAND

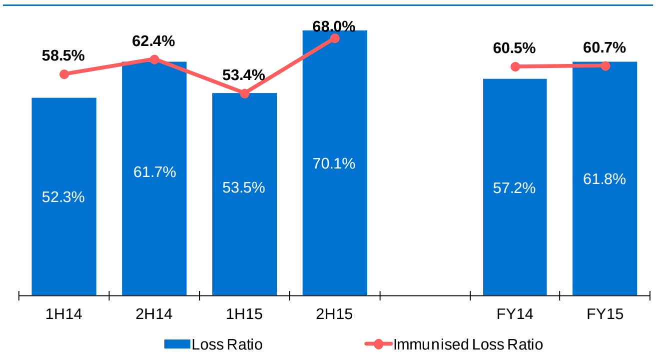
FINANCIAL PERFORMANCE

	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Gross written premium	**884**	**962**	**1,116**	**1,151**	**1,846**	**2,267**
Gross earned premium	880	936	1,148	1,151	1,816	2,299
Reinsurance expense	(140)	(117)	(143)	(151)	(257)	(294)
Net earned premium	**740**	**819**	**1,005**	**1,000**	**1,559**	**2,005**
Net claims expense	(387)	(505)	(538)	(701)	(892)	(1,239)
Commission expense	(82)	(86)	(121)	(121)	(168)	(242)
Underwriting expense	(147)	(146)	(178)	(192)	(293)	(370)
Underwriting profit/(loss)	**124**	**82**	**168**	**(14)**	**206**	**154**
Investment income on technical reserves	(32)	6	25	37	(26)	62
Insurance profit	**92**	**88**	**193**	**23**	**180**	**216**
Profit from fee based business	1	2	2	2	3	4
Total divisional result	**93**	**90**	**195**	**25**	**183**	**220**

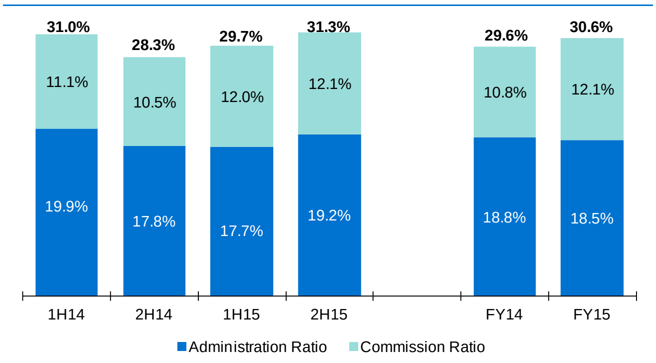
Insurance Ratios	1H14	2H14	1H15	2H15	FY14	FY15
Loss ratio	52.3%	61.7%	53.5%	70.1%	57.2%	61.8%
Immunised loss ratio	58.5%	62.4%	53.4%	68.0%	60.5%	60.7%
Expense ratio	31.0%	28.3%	29.7%	31.3%	29.6%	30.6%
Commission ratio	11.1%	10.5%	12.0%	12.1%	10.8%	12.1%
Administration ratio	19.9%	17.8%	17.7%	19.2%	18.8%	18.5%
Combined ratio	83.3%	90.0%	83.2%	101.4%	86.8%	92.4%
Immunised combined ratio	89.5%	90.7%	83.1%	99.3%	90.1%	91.3%
Insurance margin	12.4%	10.7%	19.2%	2.3%	11.5%	10.8%

INSURANCE RATIOS

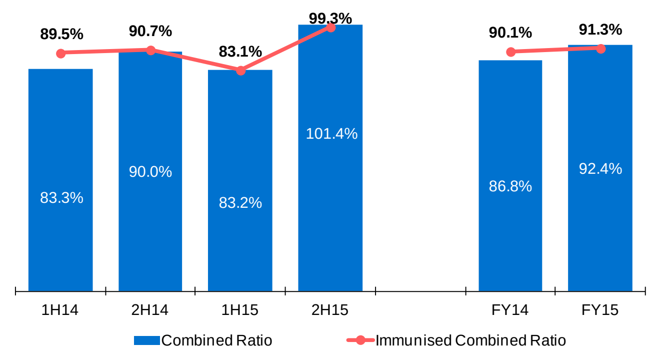
LOSS RATIO



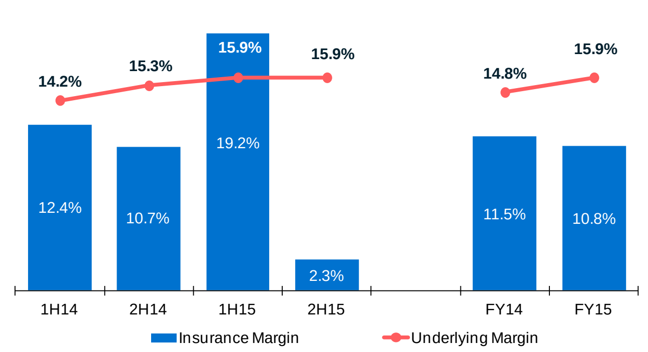
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

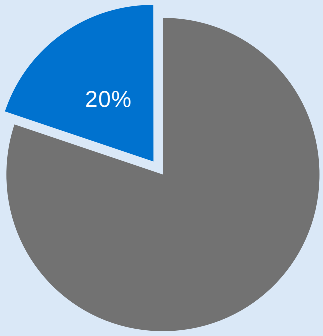


8. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- Strong local currency GWP growth of 19.4%, driven by the first-time inclusion of Lumley Insurance
- Operating performance continues to be strong – underlying margin of 15.9%
- Integration of Lumley Insurance progressing to plan
- Good progress on Canterbury rebuild – 78% of claims settled
- Further strengthening of earthquake claim reserves – February 2011 event now above reinsurance cover
- Strong underlying performance expected to be maintained in FY16

New Zealand - % Group GWP



PREMIUMS

New Zealand's FY15 GWP of NZ$2,436m represented an increase of 19.4% over FY14 (NZ$2,040m). This strong growth reflects the first-time contribution from Lumley Insurance (Lumley) following its acquisition as part of the Wesfarmers transaction.

Excluding Lumley, local currency GWP fell slightly, reflecting:

- Softening premium rates and additional capacity in commercial lines;
- Ongoing aggressive competition across the intermediated business;
- A small reduction, primarily in 2H15, from the transfer of the health portfolio and the outsourcing of a large portion of the travel portfolio to third parties; and
- Offsetting solid growth in direct personal lines, particularly in the home owner and private motor vehicle areas.

Reported GWP increased by 22.8% to $2,267m, reflecting the additional Lumley GWP and a favourable exchange rate effect compared to FY14.

The intermediated business (including NZI, Lumley and financial institution partners) represented 62% of GWP in FY15 (FY14: 56%). Rate increases during the year were predominantly applied to the domestic home owners' and private motor vehicle books across the financial institution partner portfolios, with other inflationary rate increases implemented where required across key products. Intermediated personal lines new business growth levels were favourable and retention levels remained steady.

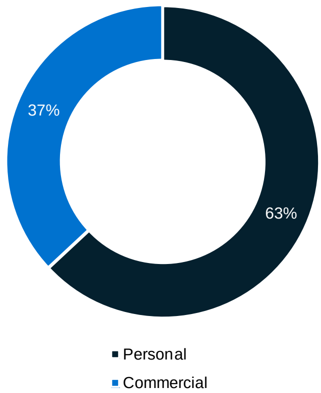
Increased capacity in the commercial market resulted in a more competitive environment with some reductions in premium rates, particularly in corporate commercial property lines. However, the business remains disciplined in underwriting and pricing for risk.

NZI's strong market standing was maintained, with it winning the 'Intermediated Insurer of the Year' (Australia and New Zealand Institute of Insurance and Finance) for the third consecutive year.

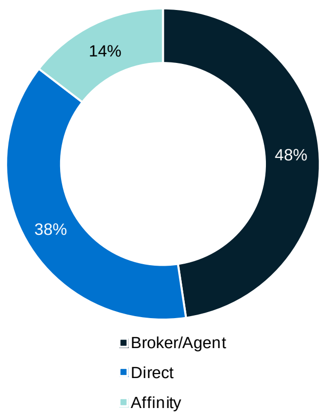
The direct business, which consists primarily of the State and AMI brands, represented 38% of GWP in FY15 (FY14: 44%) and achieved growth of nearly 2% during the year. The lower proportion of divisional GWP reflected the addition of the intermediated Lumley business from the beginning of the year.

Strong local currency GWP growth of 19.4%

FY15 GWP BY CLASS



FY15 GWP BY CHANNEL



8. NEW ZEALAND

Direct GWP growth was achieved in the home owners' book, following the changes to home owners' policies implemented in the prior year, and in private motor as a result of new business flows from the digital proposition. Overall retention and new business levels fell marginally in 2H15, primarily due to heightened competition. The direct business' investment in digital continues, with home and contents 'quote and buy' online functionality added in May 2015 and a private motor 'quote and buy' mobile app, linking to added value customer offerings, released in June 2015.

REINSURANCE EXPENSE

The reinsurance expense of $294m was over 14% higher than FY14 ($257m). This movement reflects the net effect of:

- The inclusion of reinsurance costs associated with the Lumley business;
- Lower costs in respect of AMI (notably in 1H15), whose previously standalone reinsurance programme was brought within the Group's main catastrophe programme from 1 January 2014; and
- Increased costs in 2H15, reflecting the influence of earthquake-related reserve strengthening at the end of 1H15 on the Group's calendar 2015 catastrophe renewal.

New Zealand's reinsurance expense as a proportion of GWP was relatively consistent across FY15, at around 13% of GWP.

CLAIMS

The FY15 net claims expense of $1,239m (FY14: $892m) resulted in a relatively flat immunised loss ratio of 60.7% (FY14: 60.5%). The increased claims cost was driven by the combination of:

- Inclusion of the Lumley business for the first time;
- Net reserve strengthening of $136m, primarily in respect of the February 2011 Canterbury earthquake; and
- Lower net natural peril costs of $59m (FY14: $106m).

The reported loss ratio of 61.8% (FY14: 57.2%) also includes an adverse foreign exchange effect of $15m. This is associated with reinsurance recoveries in respect of the earthquakes in FY11, held by the offshore captive in Singapore. A corresponding favourable effect is included in investment income on technical reserves, resulting in no net impact to the insurance margin. The FY14 claims line saw an equivalent favourable effect of $44m, countered by a similar-sized opposing impact on investment income.

The business' underlying claims performance was relatively stable in FY15. Working claims experience was broadly in line with FY14, as slightly higher claims cost inflation was offset by marginally lower frequency. The FY15 large claims (greater than NZ$100,000) experience was in line with expectations but higher than FY14 owing to the first time inclusion of Lumley.

Owing to a particularly benign 1H15, full year net natural peril claim costs were $33m below allowance. 2H15 saw a sharp increase in weather events, particularly towards the end of the half. These included floods in the lower South Island, storms across the North Island and severe floods in the Whanganui area.

Earthquake reserve strengthening and increased natural peril activity in 2H15

8. NEW ZEALAND

NATURAL PERILS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Natural peril claim costs	(49)	(57)	(11)	(48)	(106)	(59)
Natural peril allowance	35	34	46	46	69	92
Impact on insurance profit	**(14)**	**(23)**	**35**	**(2)**	**(37)**	**33**
Impact on insurance margin	**(1.9%)**	**(2.8%)**	**3.5%**	**(0.2%)**	**(2.4%)**	**1.7%**

A prior period reserve strengthening of $136m was recognised in FY15. The vast majority of this relates to a strengthening of reserves at 30 June 2015 in respect of the February 2011 earthquake, which has taken the Group's exposure above the related reinsurance cover for this event.

RESERVE RELEASES	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	1	(14)	(2)	(134)	(13)	(136)
Impact on insurance margin	**0.1%**	**(1.7%)**	**(0.2%)**	**(13.4%)**	**(0.8%)**	**(6.8%)**

Canterbury Rebuild

Over the course of FY15, there was a significant increase in the expected final claim cost arising from the series of earthquakes that affected the Canterbury region in 2010 and 2011. This was driven by:

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

The majority of the strengthening of gross reserves was identified at the end of 1H15, with a more modest increase at the conclusion of FY15.

In both instances, the bulk of the increase relates to the 22 February 2011 event, and gross claim reserves for this event now stand in excess of the applicable reinsurance limit of NZ$4bn. As a result, the Group is now on risk for any further development and incurred a net reserve strengthening cost of $134m (~NZ$150m) in 2H15. Loss estimates for the other major earthquake events are expected to settle well below respective reinsurance limits.

At 30 June 2015 the New Zealand business had completed approximately NZ$4.5bn of claim settlements for the FY11 Canterbury earthquakes (1H15: over NZ$3.9bn). Approximately 78% (1H15: 69%) of all claims by number had been fully settled at that date.

Finalisation of commercial claims has advanced in line with expectations with over 91% settled (1H15: 88%). Residential claims continue to make steady progress with nearly 75% settled (1H15: 66%).

Despite ongoing complexity in the Canterbury rebuild process, the Group expects that the majority of outstanding residential properties will be in construction by December 2015, with the rebuild largely complete by the middle of calendar 2016. Certain shared properties, over cap claims from the EQC and claims subject to dispute or litigation may take longer to settle.

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

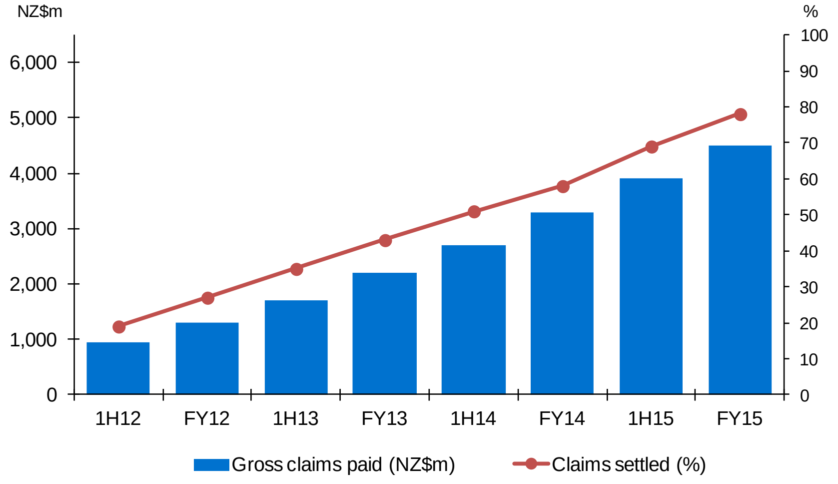
Increased gross earthquake claim cost – February 2011 event now above reinsurance limit

Approximately NZ$4.5bn of FY11 earthquake claims now paid – ~78% of claims by number fully settled

8. NEW ZEALAND

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

FY11 CANTERBURY EARTHQUAKES – CLAIMS SETTLEMENT*



Excludes Lumley business.

EXPENSES

FY15 reported expenses, of $612m, were considerably higher than FY14 ($461m), primarily owing to the first-time inclusion of the Lumley business.

The total expense ratio was 30.6%, with the increase against FY14 (29.6%) reflecting the division's changed business mix following the addition of the higher cost intermediated Lumley business. Within this:

- Commission expenses of $242m (FY14: $168m) were 44% higher than the prior year, with the increase in the commission ratio to 12.1% (FY14: 10.8%) reflecting the higher proportion of intermediated business volumes following the addition of Lumley; and
- Underwriting expenses of $370m (FY14: $293m) were 26.3% higher than the prior year, and in local currency terms increased by 23%. The administration ratio fell to 18.5% (FY14: 18.8%). The higher administration ratio in 2H15 was largely attributable to the planned phasing of business investment activities, including marketing spend.

Higher expense ratio reflects increased intermediated business component

Investments in digital and other technology platforms, as well as refinements to operating models, continued during the year, offering opportunities for future operating efficiencies while enhancing the business' ability to offer affordable insurance solutions to its customers.

Lumley Integration

The integration of the Lumley business is largely complete with associated synergies expected to be realised in line with original expectations, including a modest impact in FY15. Actions to date include:

- Consolidation of all functions including back office, product, pricing, claims, sales and distribution teams;
- Supplier review and procurement consolidation;
- NZI maintained as the main brand for the intermediated business; and
- Engagement with broker partners to confirm their point of contact and default product offering, providing certainty and confidence.

8. NEW ZEALAND

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves included a near-$60m favourable movement, compared to FY14, owing to the foreign exchange impact flowing from the hedge associated with reinsurance recoveries in respect of the earthquakes in FY11. These recoveries are held by the offshore captive in Singapore. A corresponding effect is included in the net claims expense, resulting in no net impact to the insurance margin.

INSURANCE PROFIT

Strong underlying profitability maintained

The New Zealand business produced an insurance profit of $216m in FY15, which was a strong result in a competitive environment. The result equated to a reported insurance margin of 10.8% (FY14: 11.5%).

The slightly lower reported insurance margin in FY15 reflects the combination of:

- Continued focus on pricing and underwriting discipline, while balancing affordability for customers with availability of insurance capacity;
- Ongoing operational improvements across the business and the realisation of initial benefits associated with the Lumley integration;
- Relatively benign natural peril activity, despite the pick-up in events in 2H15; and
- Reserve strengthening in respect of the FY11 earthquakes, which has seen the Group exceed its reinsurance cover for the February 2011 event.

The New Zealand business' underlying margin was consistently strong across FY15, while absorbing high regulatory and reinsurance costs in an increasingly competitive environment.

INSURANCE MARGIN IMPACTS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Reserve releases	1	(14)	(2)	(134)	(13)	(136)
Natural perils	(49)	(57)	(11)	(48)	(106)	(59)
Natural peril allowance	35	34	46	46	69	92
Reserve releases	0.1%	(1.7%)	(0.2%)	(13.4%)	(0.8%)	(6.8%)
Natural perils	(6.6%)	(7.0%)	(1.1%)	(4.8%)	(6.8%)	(2.9%)
Natural peril allowance	4.7%	4.2%	4.6%	4.6%	4.4%	4.6%

Given the essentially short tail nature of the New Zealand business, no allowance is made for recurring reserve releases when calculating the underlying margin.

MARKET REGULATION AND REFORM

In July 2015 the New Zealand Government published proposed changes to the Earthquake Commission Act 1993 which governs the operation of the EQC. Public submissions have been invited up to 11 September 2015, with a view to the introduction of a reform package in early 2016. The proposals meet many of the local insurance industry's recommendations, and include:

- The EQC to exit contents insurance and leave this area entirely to private insurers;
- The extension of EQC building cover to include more site-works and access-ways to buildings, mirroring industry practice in commercial claims;
- Increasing the cap on EQC building cover from NZ$100,000 (+GST) to NZ$200,000 (+GST);

8. NEW ZEALAND

- Limiting land cover to situations where rebuilding is not practicable; and
- All claims to be lodged with private insurers, rather than with the EQC.

If implemented in this form, it is expected that the proposed EQC reforms could result in a modest reduction in IAG's reported New Zealand GWP, reflecting the decrease in exposure to home insurance partially offset by an increase in exposure to contents insurance. With a corresponding reduction in the cost of reinsurance likely, the overall impact of the proposed reforms on the reported insurance result is expected to be immaterial.

Other areas of regulatory reform that will have an impact on the New Zealand operating environment over the mid-to-longer term include:

- Review of the law relating to financial advice and dispute resolution schemes;
- Implementation of the fair insurance code;
- Review of the funding approach for the New Zealand Fire Services;
- Continued pursuit of reforms to the Resource Management Act, to strengthen the consideration of natural hazards in land use decisions; and
- Pursuit of the development of an improved national strategy and framework for the management of natural hazards.

MARKET ENVIRONMENT AND OUTLOOK

The New Zealand economic environment has seen inflation hovering at historically low levels, while GDP growth is currently of the order of 2.5% and has experienced some recent softening on the back of lower dairy prices and a perceived peaking of rebuild activity in the Canterbury region.

The Reserve Bank of New Zealand signalled a change in direction in June 2015 by reducing the Official Cash Rate by 25 basis points to 3.25%, the first reduction since June 2011. This was followed by another 25 basis points cut in late July, and an indication of further easing in the future. This has been in direct response to downside inflationary risks, including falling export commodity prices and weakening demand.

With increased capacity in the intermediated segment evident, the insurance market is expected to remain very competitive in the medium term, with continued rate pressure anticipated. In the direct segment, market conditions reflect an increasingly competitive landscape with aggressive new entrants and ongoing direct competitor challenges.

The New Zealand business' broader strategy continues to be one of maintaining its market-leading position, balanced with sustaining its underlying profitability by focusing on pricing and underwriting discipline to protect underwriting margins. The full realisation of synergies from the Lumley integration is expected to assist with this goal.

Expectations for future GWP growth through rate increases remain muted, with only inflationary-related rate adjustments planned in the coming period, pending confirmation of the EQC reforms. The business' underlying profitability is expected to remain strong.

Underlying profitability expected to remain strong

9. ASIA

FINANCIAL PERFORMANCE

	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Gross written premium	**154**	**163**	**164**	**189**	**317**	**353**
Gross earned premium	167	155	163	187	322	350
Reinsurance expense	(18)	(16)	(19)	(22)	(34)	(41)
Net earned premium	**149**	**139**	**144**	**165**	**288**	**309**
Net claims expense	(84)	(76)	(84)	(106)	(160)	(190)
Commission expense	(37)	(39)	(37)	(41)	(76)	(78)
Underwriting expense	(20)	(23)	(22)	(27)	(43)	(49)
Underwriting profit/(loss)	**8**	**1**	**1**	**(9)**	**9**	**(8)**
Investment income on technical reserves	2	1	7	6	3	13
Insurance profit/(loss)	**10**	**2**	**8**	**(3)**	**12**	**5**
Share of profit/(loss) from associates	(3)	5	9	7	2	16
Total divisional result	**7**	**7**	**17**	**4**	**14**	**21**

FINANCIAL CONTRIBUTION BY COUNTRY

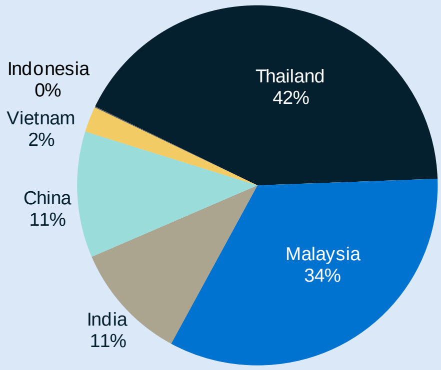
	Gross GWP		Proportional GWP		Earnings Contribution	
	FY14 A$m	FY15 A$m	FY14 A$m	FY15 A$m	FY14 A$m	FY15 A$m
Thailand	288	334	288	334	28	15
Malaysia	564	544	276	267	29	39
Established markets	**852**	**878**	**564**	**601**	**57**	**54**
India	218	323	57	84	(5)	(4)
China	376	449	75	90	(2)	1
Vietnam	29	18	29	18	(5)	2
Indonesia	-	1	-	1	-	(0)
Developing markets	**623**	**791**	**161**	**193**	**(12)**	**(1)**
Total Asian operations	**1,475**	**1,669**	**725**	**794**	**45**	**53**
Support and development costs	n/a	n/a	n/a	n/a	(31)	(32)
Total divisional result	**1,475**	**1,669**	**725**	**794**	**14**	**21**

9. ASIA

EXECUTIVE SUMMARY

- IAG has established a presence in its six target markets: Thailand, Malaysia, India, China, Vietnam and Indonesia
- Small exposure to Indonesia acquired late in 2H15
- Asia represented 6.7% of FY15 Group GWP on a proportional basis
- Proportional GWP grew by 9.5%, driven by a resumption of growth in Thailand and a strong performance in India
- Overall divisional profit of $21m (FY14: $14m)
- Strong underlying performances from established businesses (Thailand and Malaysia)
- Improving performance from developing businesses (India, China and Vietnam) – collectively close to breakeven
- Group net investment in Asia of $893m
- Further operational progress expected in FY16

Asia GWP Mix FY15 - Proportional Basis



DIVISIONAL RESULT OVERVIEW

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

Asia achieved an improved operating performance in FY15 as it continued to accelerate its operational development and enhancement of risk management and governance.

A key milestone in FY15 was the acquisition at the end of April 2015 of PT Asuransi Parolamas in Indonesia, fulfilling IAG's presence in its six target markets in the Asian region.

As at 30 June 2015, IAG's net investment in Asia was $893m, of which over $670m is in the established and profitable markets of Thailand and Malaysia. At 30 June 2014 the total investment in Asia was $832m, with the increase since that date driven by a combination of:

- Capital repatriation in the form of dividend payments from the established businesses in Thailand and Malaysia ($57m);
- A $60m writedown in the carrying value of the investment in Bohai Insurance in China;
- The cost of the initial investment in Indonesia, including capital injection;
- A modest capital injection in India towards the beginning of FY15;
- Higher reported earnings in FY15; and
- Foreign exchange movements.

The division contributed a total profit of $21m in FY15, including shares of associates. This compares to a $14m profit in FY14, and comprises:

- Strong underlying performances by the established businesses in Thailand and Malaysia;
- An improved operating performance from each of the developing businesses in India, China and Vietnam;
- A favourable movement in mark-to-market valuations of investments, including those within associates' shareholders' funds; and
- Modestly higher regional support and development costs.

Asia represented 6.7% of FY15 Group GWP, on a proportional basis

9. ASIA

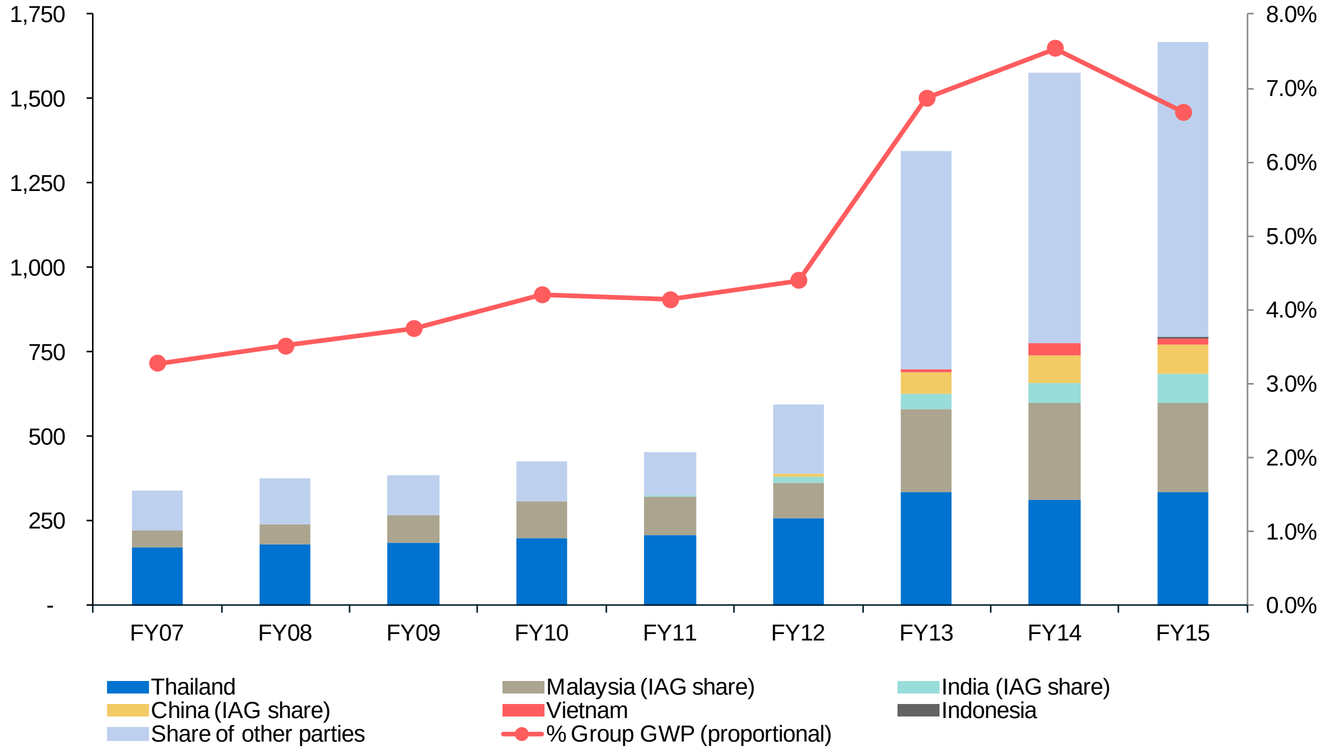
In FY15, Asia represented 6.7% of the Group's GWP on a proportional basis, compared to 7.1% in FY14. The lower percentage reflects the first-time consolidation of the former Wesfarmers business in Australia and New Zealand. Excluding this effect, Asia's contribution to proportional Group GWP in FY15 would have approached 8%.

Proportional GWP in Asia was $794m in FY15, an increase of 9.5% compared to FY14. This reflected the combination of:

- Steady recovery in Thailand, amid renewed political stability;
- Some contraction in Malaysia, arising from the loss of agency business in an intensely competitive environment;
- Continuing strong growth in India;
- Sound growth from China; and
- Lower volumes in Vietnam due to the exit from loan protection insurance.

IAG now participates in a gross regional annualised GWP pool of nearly $1.7bn, an increase of over 13% compared to FY14.

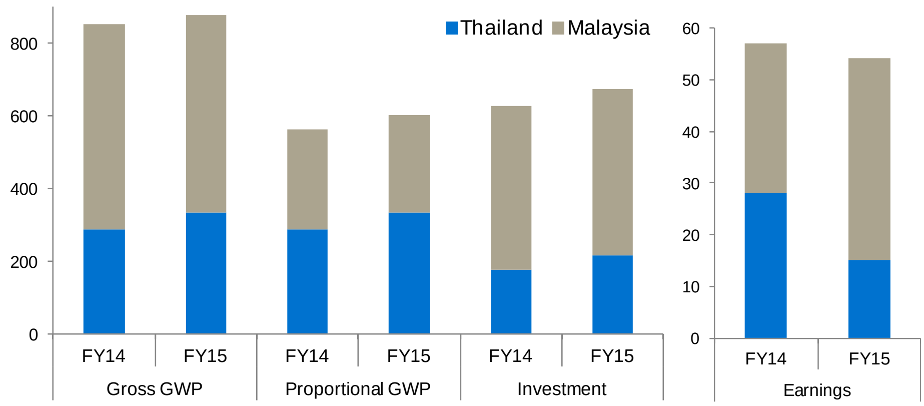
ASIAN GWP POOL (A$M / % OF GROUP GWP)



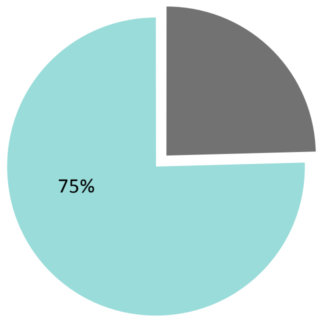
Note: All amounts have been converted to A$ using the exchange rate at the most recent reporting date to aid comparison. The % of Group GWP in FY07-FY12 is calculated after exclusion of the divested UK operation.

9. ASIA

ESTABLISHED MARKETS (A$M)



% ASIAN INVESTMENT



THAILAND

Market Presence

IAG holds a 98.6% beneficial interest in Safety Insurance (Safety), a predominantly motor insurer (c.80% of GWP), following the establishment of an initial presence in Thailand in 1998. The business operates under a single licence while using two brands: Safety (personal lines) and NZI (commercial lines). Safety has established itself as the fourth largest motor insurer in Thailand on the back of a strong reputation for customer service.

Resumption of GWP growth in Thailand

Operating Performance

In FY15, the Thai business reported an increase in GWP of nearly 16%, and 7.4% in local currency terms. This reflects the combined effect of:

- An increased focus on the used car market through agency and broker channels;
- Improved renewal retention;
- A softening of rates in the commercial motor and property segments; and
- Improving domestic demand supported by a gradual increase in economic activity.

The Thai business reported a lower insurance margin of 5.3% (FY14: 10.6%), which was driven by:

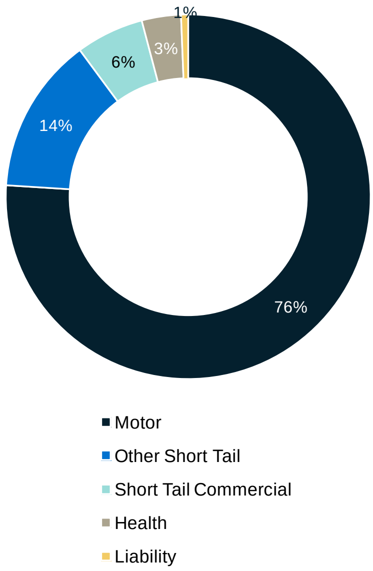
- A higher incidence of large fire losses from the property portfolio, particularly in 2H15;
- The absence of prior year reserve releases in respect of the FY12 flood event; and
- Increased commission costs as a result of higher business growth from the agency and broker channels.

Investment income on technical reserves contains a modest favourable foreign exchange impact from the hedge associated with reinsurance recoveries. A corresponding negative effect is included in the net claims expense, resulting in no net impact to the insurance margin.

The Thai business reported a lower insurance profit of $15m, compared to $28m in FY14. Following the allocation of regional support and development costs, Thailand's profit contribution was $5m (FY14: $20m).

In 2H15 a dividend of approximately $15m was paid to the Group.

SAFETY – FY15 GWP BY CLASS



9. ASIA

SAFETY FINANCIAL PERFORMANCE	FY14 ฿m	FY14 A$m[1]	FY15 ฿m	FY15 A$m[1]
Gross written premium	**8,461**	**288**	**9,083**	**334**
Net earned premium		**264**		**285**
Net claims expense		(153)		(185)
Commission & underwriting expenses		(86)		(97)
Investment income on technical reserves		3		12
Insurance profit		**28**		**15**
Insurance Ratios				
Loss ratio		58.0%		64.9%
Expense ratio		32.6%		34.0%
Combined ratio		90.6%		98.9%
Insurance margin		10.6%		5.3%

[1]*Excludes allocated regional support and development costs.*

Market Environment, Regulation and Reform

The long term outlook for Thailand remains positive. In the opening quarter of 2015, the Thai economy expanded by 3% compared to the same period in 2014, supported by an improvement in domestic demand. While consumer sentiment has not returned to the level before the political unrest in mid-2014, the economy is forecast to grow by 3-4% in 2015 on expectations of an increase in government spending on infrastructure and investment projects to bolster economic expansion. In addition, the Bank of Thailand trimmed its key borrowing benchmark rate, from 2% to 1.5%, over the course of March and April 2015, in a bid to stimulate domestic consumption.

Modest industry growth expected in 2015, on weak new motor vehicle demand

The Thai general insurance industry's growth is expected to remain subdued following a flat outcome in calendar 2014. Modest growth in calendar 2015 is expected to be driven by non-motor segments as motor continues to experience downwards pressure from weaker new vehicle sales.

The Office of Insurance Commission (OIC) is in the process of finalising its 3rd Insurance Development Plan covering strategic objectives for 2015 to 2020. This is aimed at strengthening and building confidence in the Thai insurance market in preparation for its liberalisation under the ASEAN Economic Community.

MALAYSIA

Market Presence

IAG owns a 49% interest in AmGeneral Holdings Berhad (AmGeneral), the general insurance arm of AmBank Group, Malaysia's fifth largest bank. The joint venture was established in 2006, and became one of the leading motor insurers in Malaysia following its acquisition of Kurnia Insurans (Malaysia) Berhad (Kurnia) in September 2012. Since 1 March 2013, the combined business has operated as AmGeneral Insurance Berhad using two market-leading brands, AmAssurance and Kurnia.

Strong underlying performance by AmGeneral, against a challenging top line

Operating Performance

AmGeneral's operating performance has remained strong, with an increase in earnings contribution to $39m (FY14: $29m). This was achieved despite lower top line performance which saw FY15 GWP contract by 3.5% to $544m (IAG's share being approximately $267m) compared to FY14 ($564m). In local currency terms the reduction was 6.8%.

9. ASIA

AmGeneral's GWP outcome reflected:

- Intense competition in the agency channel;
- Restrained growth in the bancassurance channel, under a tighter credit access environment and AmBank's retraction from the automotive loan business; and
- A temporary adverse impact on domestic consumption from the implementation of a new Goods and Services Tax (GST) from April 2015.

AmGeneral responded to this challenging environment by launching several initiatives in 2H15 which are aimed at improving its distribution proposition and addressing its competitive market positioning. These include:

- Leveraging IAG's Australian digital capabilities to improve renewal retention, including digital agency portal services to increase agency engagement;
- New and enhanced products with deployment of digital functionality targeting improved customer management; and
- Revision of pricing strategies and a new supply chain model to ensure profitable growth in key segments.

In addition, AmGeneral continues to develop its direct offer and explore new partnership opportunities as the country transitions to a detariffed market.

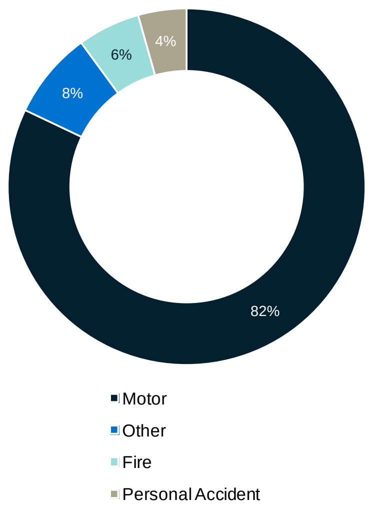
AmGeneral recorded a higher insurance margin of 18.8% in FY15 (FY14: 14.1%). This improvement was derived from the net effect of:

- An improved loss ratio of 62.4% (FY14: 63.5%) owing to higher prior period reserve releases from the motor bodily injury portfolio; and
- Higher investment income owing to a favourable mark-to-market movement on the bond portfolio.

In addition to the stronger insurance profit, AmGeneral's FY15 earnings benefited from significantly lower mark-to-market losses recognised on the investments backing shareholders' funds.

In April 2015, the AmGeneral board approved a special dividend payment of approximately $86m (IAG's share being $42m).

AMGENERAL – FY15 GWP BY CLASS



AMGENERAL FINANCIAL PERFORMANCE	FY14 RMm	FY14 A$m	FY15 RMm	FY15 A$m
Gross written premium	**1,679**	**564**	**1,564**	**544**
Net earned premium	**1,536**		**1,455**	
Net claims expense	(975)		(908)	
Commission & underwriting expenses	(434)		(409)	
Investment income on technical reserves	90		135	
Insurance profit	**217**		**273**	
Net profit after tax	**176**		**231**	
Net profit after tax - IAG's share (49%)	**86**	**29**	**113**	**39**
Insurance Ratios				
Loss ratio	63.5%		62.4%	
Expense ratio	28.3%		28.1%	
Combined ratio	91.8%		90.5%	
Insurance margin	14.1%		18.8%	

9. ASIA

Market Environment, Regulation and Reform

The Malaysian economy grew by 6% in fiscal year 2014 and is projected to remain on a steady growth path of around 5% in calendar 2015. The economy achieved growth of 5.6% in the first quarter of 2015 driven by strong consumer demand ahead of the introduction of the GST, as well as growth in fixed investment. The impact of the GST on private consumption is expected to be neutral in the long run as a steady increase in wages and employment lend support.

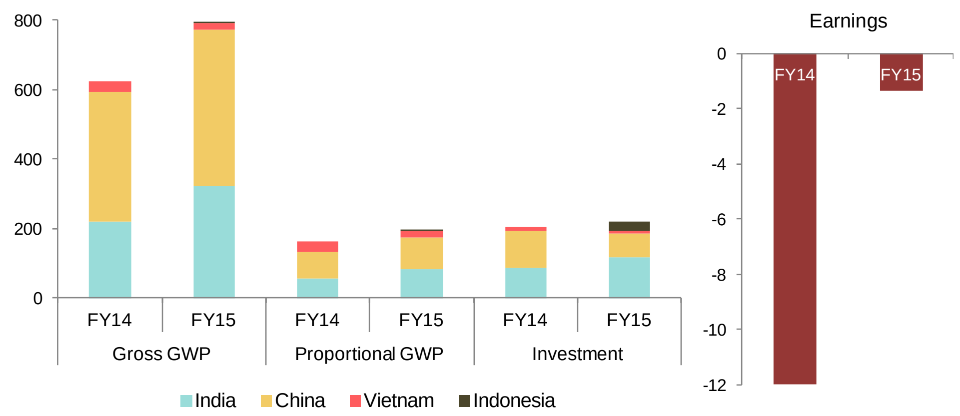
Malaysia's general insurance market is poised for steady growth of 6-7% per annum until calendar 2016. With resilient GDP growth, sound operating margins and a strengthening regulatory environment, the Malaysian insurance industry continues to offer good long term growth prospects.

The recently enacted Financial Services Act and Islamic Financial Services Act include the prohibition of composite licences. Under the new regulation, both conventional insurance companies and takaful operators will need to split their general and life / family businesses under separate licences. New regulatory capital treatment is likely to spur further consolidation opportunities in the industry.

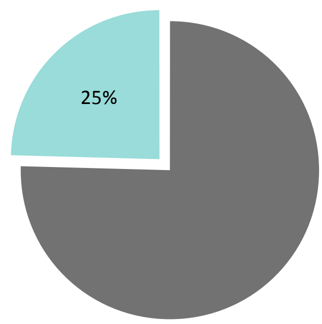
The general insurance industry is proactively engaging with the central bank in ongoing regulatory developments as the country transitions to a liberalised market in 2016, when motor insurance and fire premiums will be detariffed. AmGeneral is well-advanced in its preparation for the tariff reform.

Sound economic and industry growth outlook in Malaysia

DEVELOPING MARKETS (A$M)



% ASIAN INVESTMENT



INDIA

Market Presence

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India (SBI), India's largest bank. SBI General commenced underwriting in April 2010 and is building a portfolio with a presence in the retail, SME and corporate markets across India, with access to SBI's extensive branch network. Following the amendment of the insurance law in March 2015 to increase the foreign direct investment limit, IAG and SBI have commenced the process towards increasing IAG's shareholding in SBI General to 49%. It is anticipated that this will be completed in FY16.

Strong GWP growth from SBI General, through diversified channels

9. ASIA

Operating Performance

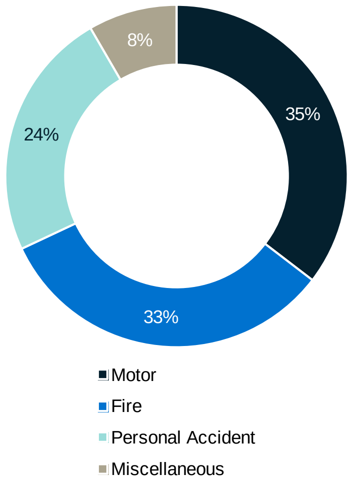
SBI General continued to grow strongly, generating FY15 GWP equivalent to $323m (IAG's 26% share being approximately $84m), an increase of over 48% compared to FY14. Local currency GWP growth was nearly 36%.

GWP growth in FY15 was derived primarily from personal accident and home insurance business written through the bancassurance channel, as well as motor business distributed through motor dealers. SBI General has quickly established itself as the second largest personal accident insurance provider in India, with a market share in excess of 13% in the Indian financial year ended 31 March 2015.

SBI General reported a lower loss in FY15, of which IAG's share was approximately $4m. This outcome comprised:

- Unrealised capital gains (compared to losses in FY14) from the mark-to-market revaluation of bonds;
- A slightly higher expense ratio owing to increased marketing expenses; and
- A higher loss ratio owing to claims related to Cyclone Hudhud, which struck the east coast of India in mid-October 2014, and a strengthening of third party motor pool reserves.

SBI GENERAL – FY15 GWP BY CLASS



SBI GENERAL FINANCIAL PERFORMANCE	FY14 ₹'m	FY14 A$m	FY15 ₹'m	FY15 A$m
Gross written premium	**12,276**	**218**	**16,665**	**322**
Net earned premium	**6,987**		**9,555**	
Net claims expense	(5,852)		(8,120)	
Commission & underwriting expenses	(3,389)		(4,771)	
Investment income on technical reserves	744		1,839	
Insurance (loss)	**(1,510)**		**(1,497)**	
Net (loss) after tax	**(1,068)**		**(703)**	
Net (loss) after tax - IAG's share (26%)	**(278)**	**(5)**	**(183)**	**(4)**
Insurance Ratios				
Loss ratio	83.8%		85.0%	
Expense ratio	48.5%		49.9%	
Combined ratio	132.3%		134.9%	
Insurance margin	(21.6%)		(15.7%)	

At the end of FY15, SBI General had 71 products in the market, 77 dedicated branches across India and nearly 2,300 employees.

In line with SBI General's long term expansion plan, a capital injection occurred in the opening quarter of FY15, with IAG's share being approximately $20m.

Market Environment, Regulation and Reform

The medium to long term growth prospects for the general insurance market in India remain strong. The industry grew by 9.3% in the fiscal year ending 31 March 2015, led by the health insurance sector's growth of 30%. The industry is targeting growth of 18% in fiscal year 2016, supported by a low insurance penetration rate, rising middle class income and increasing awareness of health insurance. GDP growth is running at close to 8%.

India's long term general insurance market growth prospects remain strong

9. ASIA

The regulatory framework continues to develop, incorporating reforms conducive for growth in the insurance industry and facilitating changes made to the Insurance Act in March 2015. These include:

- The Insurance Regulatory and Development Authority of India's (IRDAI) enforcement of a pricing regime to curb general insurance companies offering heavy discounts despite rising insured losses;
- Increased penalties for vehicle owners failing to buy insurance;
- An automatic detection system, in collaboration with the police and transport authorities, to crack down on evasion of mandatory third-party motor insurance; and.
- The constitution of three committees (life, non-life and health) to deliberate the new industry rules to improve industry engagement.

CHINA

Market Presence

IAG owns a 20% interest in Bohai Property Insurance Company Ltd (Bohai Insurance), acquired in April 2012. Bohai Insurance was established in 2005, and has a predominantly motor insurance focus. Headquartered in Tianjin, it has a strong emphasis on the surrounding pan-Bohai region.

As advised in June 2015, IAG is investigating opportunities to participate in the Chinese insurance market on a national scale, reflecting the attractive long term growth opportunity it represents and the recent relaxation of restrictions placed on foreign participants. IAG believes that exposure to an entity with a national presence would optimise the potential returns available, as opposed to the regional presence that Bohai Insurance currently provides.

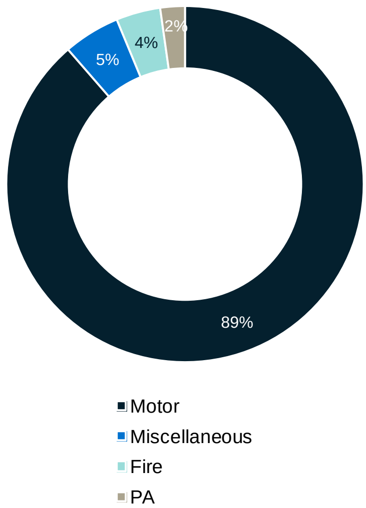
IAG is investigating opportunities to participate in China via a national presence

IAG has decided not to participate in a capital raising which Bohai Insurance is pursuing to fund the next stage of its development. This is expected to result in IAG's ownership falling to under 14% in 1H16. The proposed issue price of new shares is lower than IAG's original subscription level. Along with a revision to the expected cash flows of the business, this has influenced the Group's writedown of its investment in Bohai Insurance by $60m, which is contained in the Group's FY15 amortisation and impairment expense.

Operating Performance

In FY15, Bohai Insurance recorded an increase in GWP of over 19% to $449m (IAG's 20% share being $90m), compared to FY14 ($376m), with local currency GWP growth of over 9%. The slower level of GWP growth than FY14 (37%) reflects the scaling back of commission incentives in the early part of the financial year and increased competitive pressure. Bohai Insurance has maintained its strategic focus of driving branch performance in selected geographical areas.

BOHAI INSURANCE – FY15 GWP BY CLASS



Bohai Insurance produced a modest post-tax FY15 operating profit, of which IAG's share was approximately $1m (FY14: $2m loss). This improvement reflected the combined effect of:

- A lower expense ratio from improved management of controllable expenses;
- Stronger investment returns; and
- Lower prior period reserve releases.

The embedding of IAG's capability transfer programme is well-advanced. This programme has encompassed product development, sales and distribution, claims and risk management, as well as the implementation of more stringent underwriting and pricing controls.

9. ASIA

Specific areas of attention have included:

- Development of a more granular risk selection process;
- Integration of supply chain solutions;
- Establishment of an enterprise-wide risk management system; and
- Improved renewal retention.

BOHAI INSURANCE FINANCIAL PERFORMANCE	FY14 ¥m	FY14 A$m	FY15 ¥m	FY15 A$m
Gross written premium	**2,116**	**376**	**2,307**	**449**
Net earned premium	**1,775**		**2,122**	
Net claims expense	(1,075)		(1,305)	
Commission & underwriting expenses	(895)		(1,010)	
Investment income on technical reserves	75		165	
Insurance (loss)	**(120)**		**(28)**	
Net profit/(loss) after tax	**(59)**		**13**	
Net profit/(loss) after tax - IAG's share (20%)	**(12)**	**(2)**	**3**	**1**
Insurance Ratios				
Loss ratio	60.6%		61.5%	
Expense ratio	50.4%		47.6%	
Combined ratio	111.0%		109.1%	
Insurance margin	(6.8%)		(1.3%)	

Market Environment, Regulation and Reform

Strong industry growth outlook persists in China

The Chinese economy grew by 7.4% in calendar 2014, and 7% in the first quarter of fiscal year 2015. The slight moderation in economic activity is consistent with the Chinese authorities' willingness to tolerate slower growth under their 'new normal' approach. Economic growth of close to 7% is anticipated in calendar 2015, supported by targeted public spending and an easing in monetary policy.

China remains an attractive general insurance market underpinned by a strong economic outlook and the government's active promotion of agricultural, liability and natural catastrophe insurance. General insurance GWP grew by 16.4% in calendar 2014 and is expected to sustain good momentum owing to steady new automobile sales, greater penetration of non-motor lines and the expansion of distribution channels.

The China Insurance Regulatory Commission (CIRC) is projecting average annual GWP growth of 17% until 2020.

Motor GWP is forecast to grow on average by at least 15% per annum over the next 3-5 years. Volumes will be driven by the growing Chinese economy, coupled with the urbanisation process in third and fourth-tier cities which will boost car sales. The detariffication of motor insurance has regained momentum. More flexible pricing schemes that incorporate more effective rating variables, but penalise excessive sales commission, commenced in six provinces in May 2015.

The online insurance market is forecast to lend support to overall industry growth as the development of internet usage accelerates. Premiums from online sales are projected to account for 30% of general insurance GWP by 2019.

9. ASIA

VIETNAM

Market Presence

IAG owns a 63.17% interest in AAA Assurance Corporation (AAA Assurance), moving to control in July 2013 after acquiring an initial 30% stake in May 2012. AAA Assurance is headquartered in Ho Chi Minh City and commenced operations in 2006.

Small profit from AAA Assurance

Operating Performance

AAA Assurance produced a profit of $2m in FY15, in contrast to a loss of $5m in FY14. This improvement was driven by a lower loss ratio of 19.1% (FY14: 32.9%), derived from the benefits of tightened claims control and the implementation of a new claims assessing model.

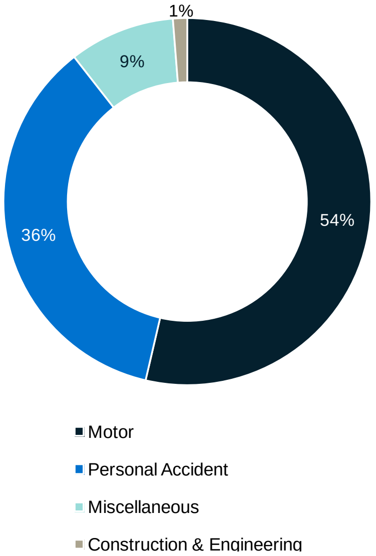
Improved profitability also embraced a lower commission ratio owing to the change in business mix and the contribution from run-off business written through the bank channel.

AAA Assurance recorded a decline in GWP of nearly 40% in FY15, and approximately 50% in local currency terms. This follows the decision to withdraw from the distribution of loan protection insurance with a bank partner on profitability grounds, which took effect from the end of the first quarter of FY15.

AAA Assurance has continued to strengthen its operating and technical capabilities. This has included:

- Enhanced risk management and governance; and
- Improved underwriting and process controls.

AAA ASSURANCE – FY15 GWP BY CLASS



AAA ASSURANCE FINANCIAL PERFORMANCE	FY14 ₫m[1]	FY14 A$m[1]	FY15 ₫m[1]	FY15 A$m[1]
Gross written premium	**582,217**	**29**	**291,203**	**18**
Net earned premium	**481,774**	**24**	**394,004**	**24**
Net claims expense	(158,510)	(8)	(75,202)	(5)
Commission & underwriting expenses	(432,511)	(22)	(302,545)	(18)
Investment income on technical reserves	16,477	1	14,050	1
Insurance profit/(loss)	**(92,770)**	**(5)**	**30,307**	**2**
Loss ratio	32.9%		19.1%	
Expense ratio	89.8%		76.8%	
Combined ratio	122.7%		95.9%	
Insurance margin	(19.3%)		7.7%	

[1]*Excludes allocated regional support and development costs.*

Market Environment, Regulation and Reform

Sound economic recovery in Vietnam, with positive long term outlook

The Vietnamese economy grew by 6% in calendar 2014, with further improvement anticipated in 2015. Growth has been led by a lift in foreign investment, which boosted manufacturing growth and promoted a recovery in domestic demand.

The outlook for Vietnam's non-life insurance sector remains positive, driven by a low penetration rate and a growing middle class. Motor represented 28% of general insurance premiums in calendar 2014, which is significantly lower than in most other South East Asian countries. In the near term, the market continues to be dominated by the underwriting of large scale industrial commercial risks.

9. ASIA

Industry GWP grew by 13% in calendar 2014, fuelled by stronger passenger car sales and a recovery in the construction and personal accident sectors as business sentiment improved.

Following the launch of a pilot programme in export credit insurance, the government is introducing regulations on microinsurance and agricultural insurance to enhance diversification of insurance products and distribution channels.

Regulatory reform continues to aim at improving corporate governance standards in line with international practices in the areas of capital adequacy, risk management and information transparency. The Ministry of Finance is continuing to strengthen the legal framework for the insurance sector, while at the same time enhancing supervision and inspection.

INDONESIA

Market Presence

IAG owns an 80% interest in PT Asuransi Parolamas (Parolamas), a small general insurance company based in Jakarta. This acquisition was completed at the end of April 2015 and provides IAG with the necessary insurance licence to compete in its sixth target market in the Asian region.

IAG is now focused on securing a distribution agreement with a recognised local partner to capitalise on opportunities presented in a market characterised by low insurance penetration and a growing middle class.

Indonesian market entry via Parolamas, acquired late April 2015

Operating Performance

Parolamas has a GWP base of approximately $12m per annum, and incurred a small loss in FY15. The business was consolidated by IAG from May 2015 and its contribution to the divisional and Group results was negligible.

Market Environment, Regulation and Reform

The Indonesian economy grew by 5% in calendar 2014, with similar growth anticipated in 2015 despite the adverse effect of lower commodity prices on export revenues. The country is also experiencing inflationary pressures, with core inflation tracking around 5%.

Industry GWP growth was 9.8% in the opening quarter of calendar 2015. Strong industry growth of the order of 10% per annum is anticipated over the next five years, driven by a large and young population, healthy economic growth, rising demand for non-life insurance products and an improving operating environment led by insurance regulator Otoritas Jasa Keuangan (OJK).

Strong long term industry growth outlook in Indonesia

REGIONAL SUPPORT AND DEVELOPMENT COSTS

Regional support and development expenditure is deployed to support the broadening of IAG's operational footprint in Asia. This covers a wide range of activities, including divisional level management, on-the-ground capability transfer teams and the cost of developing opportunities in new and existing markets.

The regional support and development costs are self-funded within the division and, for reporting purposes, are allocated between the consolidated businesses (Thailand, Vietnam and Indonesia) and shares of associates (Malaysia, India and China).

Increased regional support focused on delivering operational excellence

9. ASIA

Total regional support and development costs increased slightly to $32m in FY15 (FY14: $31m). Alongside greater capability support in driving an operational excellence strategy and enhancing risk management and governance across the Asia operations, FY15 also saw intensified activity leading up to Indonesian market entry at the end of April 2015.

REGIONAL SUPPORT AND DEVELOPMENT COSTS - ALLOCATION	FY14 A$m	FY15 A$m
Consolidated operations (Thailand, Vietnam & Indonesia)*	11	12
Associates (Malaysia, India & China)	20	20
Total regional support and development costs	**31**	**32**
Total costs/share of regional GWP	4.3%	4.0%

** PT Asuransi Parolamas (Indonesia) was consolidated with effect from May 2015.*

OUTLOOK

Higher proportional GWP growth expected in FY16

The overall Asia business anticipates reporting a stronger underlying performance in FY16, as well as higher GWP growth on a proportional basis.

Thailand is expected to produce modestly higher GWP, based on channel diversification and further penetration of the used car market through the agency and broker channels, amid downward pressure on motor volumes. The business' sound underlying profitability is expected to be maintained.

In Malaysia, AmGeneral will maintain its strategic focus of delivering GWP growth by strengthening its agency network through digital capabilities, alongside bancassurance optimisation efforts and the pursuit of potential takaful acquisition opportunities. The business is well-placed to handle the transition to a fully detariffed motor and fire market in 2016.

Growth from SBI General in India is expected to be derived from the maximisation of opportunities with the bank through the launch of new products, as well as a strong focus on growing the motor portfolio through automotive dealerships. The business remains on target to achieve profitability in FY16. IAG expects to complete the dial-up of its ownership of SBI General to 49% (from 26%) during FY16.

In China, Bohai Insurance's GWP growth will be driven by motor, along with expansion in non-motor segments. IAG's ownership of Bohai Insurance is expected to reduce in FY16, following its non-participation in a planned capital raising. Meanwhile, the Group will continue to assess opportunities that provide a national presence in China.

In Vietnam, a strategic review is being undertaken to develop a sustainable growth model for AAA Assurance, with priority on establishing a secure business. This follows the operational improvements being realised through capability transfer in claims, underwriting, corporate governance and risk management, as well as the enhancement of efficiencies in the branch operating model.

Following the acquisition of Parolamas, the emphasis in Indonesia will be on securing a distribution agreement with a recognised local partner. Progress on this front will dictate the scale of initial losses, with the focus on establishing operational controls to support the acquired business and the execution of a new joint venture model.

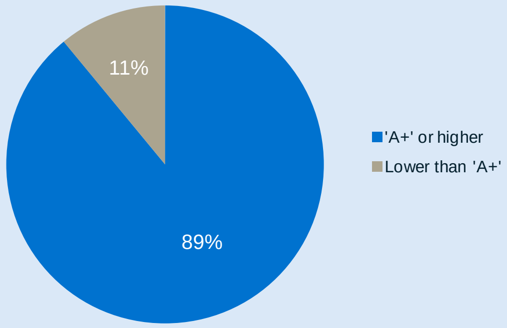
During FY15, the Asia division has been active in providing protection to microinsurance customers in its developing markets. Several microinsurance products have been sold in India and Vietnam, primarily distributed through the bank and agency channels. Expansion of product offerings, and extension of the distribution network to channels such as non-government organisations and telecommunications companies, will occur in FY16.

10. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Catastrophe programme renewed 1 January 2015 with increased cover of up to $7bn, including former Wesfarmers business
- Group maximum event retention (MER) of $25m at 30 June 2015 ($20m after quota share)
- Deductible on 2015 aggregate cover fully eroded – ~$380m of protection remaining (~$300m after quota share)
- Additional perils cover of $80m purchased for FY16, in excess of $680m
- 20% whole-of-account quota share from 1 July 2015

Counter-Party Risk - Catastrophe Programme



REINSURANCE STRATEGY

IAG's reinsurance programme is an important part of the Group's overall approach to capital management. The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4% of NEP. Its current retentions are below this level.

The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where modified whole of portfolio is the sum of all correlated risk). The limits purchased reflect a 1-in-250 year return period in Australia, and are more conservative than the Australian regulator's 1-in-200 year return period requirement.

The Group's Australian-based captive reinsurer manages 100% of the total reinsurance spend of the Australian businesses. A key responsibility of the captive is to capture and manage counter-party and regulatory exposures.

The Group's international captive reinsurers underwrite 100% of New Zealand, Thailand and Vietnam treaty business, and a substantial amount from IAG's joint venture interests in Asia. Reinsurance in respect of IAG's recent acquisition in Indonesia continues to be placed directly with third party providers. IAG's international business units continue to place some facultative reinsurance directly with the external market.

The Group's international captive reinsurers provide considerable input to the reinsurance covers concluded by its interests in Malaysia, India, China and, more recently, Indonesia.

Reinsurance is a key part of IAG's overall approach to capital management

MARKET ENVIRONMENT

Global capital markets view reinsurance as a non-correlating asset class with other investments. As a result, capital has continued to flow into the market creating a growing surplus and resulting in a continuance of the favourable rating trend from a purchaser's perspective. These favourable conditions are expected to stabilise over the coming year.

Rating environment expected to stabilise

QUOTA SHARE AGREEMENT

As part of the strategic relationship with Berkshire Hathaway which was announced on 16 June 2015, 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 quota share serves to reduce IAG's future earnings volatility and significantly reduces the amount of reinsurance that will be required to be sourced from the third party market, in particular catastrophe cover.

Berkshire Hathaway quota share materially reduces future catastrophe cover needs

10. REINSURANCE

The application of the quota share means that all of IAG's net retentions are reduced by 20% with effect from 1 July 2015. It has also contributed to a similar reduction in the Group's natural perils allowance which, for FY16, stands at $600m (FY15: $700m).

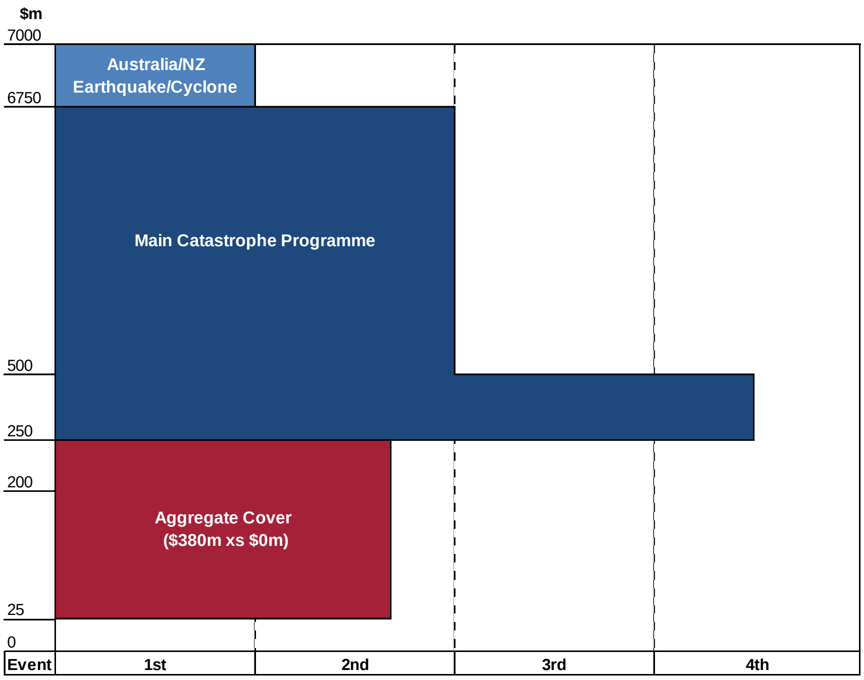
CATASTROPHE COVER

IAG's catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IAG has material operations.

The structure of IAG's catastrophe reinsurance was modified in calendar 2015 to accommodate the acquisition of the former Wesfarmers business. It entails a significantly higher level of cover than that at the beginning of calendar 2014, reflecting the increased size of IAG.

Following completion of the 2015 catastrophe cover, all reinsurance synergies expected as part of the integration of the Wesfarmers business have been realised and will be recognised in IAG's earnings up to 31 December 2015.

2015 CATASTROPHE REINSURANCE COVER – AS AT 30 JUNE 2015



At renewal on 1 January 2015 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to $6.75bn, including one prepaid reinstatement. The Group retains the first $250m of each loss, with three reinstatements secured for the lower layer of the main programme ($250m excess of $250m);
- An aggregate sideways cover providing protection of $450m excess of $375m, with qualifying events capped at a maximum contribution of $225m excess of $25m per event; and
- A $250m upper layer providing earthquake and cyclone cover in respect of Australia and New Zealand, extending from $6.75bn to $7.0bn.

Increased catastrophe cover of up to $7.0bn, for calendar 2015

10. REINSURANCE

For New Zealand, all amounts itemised above in respect of the Group's 2015 catastrophe programme are denominated in NZ$. For example, the main catastrophe cover is in respect of losses of up to NZ$6.75bn.

Specific buy-down covers are in place to protect the Group's Thai and Malaysian interests, excess of a $25m retention and including one prepaid reinstatement.

As at 30 June 2015, the deductible in respect of the aggregate cover had been fully eroded, and approximately $70m of the $450m available cover had been utilised, leaving $380m of protection available in 1H16 (~$300m post quota share). As a result, the combination of covers in place at 30 June 2015 produces maximum first event retentions (in 100% terms) of $25m for Australia, NZ$25m for New Zealand, $25m for Thailand and Malaysia, and less than $1m for Vietnam and Indonesia. Each of these retentions reduces by 20% after allowing for the Berkshire Hathaway quota share.

FY16 NATURAL PERILS COVER

Additional peril cover for FY16

The Group also renewed and extended reinsurance cover for retained natural perils at 1 July 2015. This provides $80m of cover in excess of $680m after application of the Berkshire Hathaway quota share, for the 12 months to 30 June 2016.

CTP ADVERSE DEVELOPMENT COVER (ADC)

CTP quota share and ADC have reduced regulatory capital requirement by $150m

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

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

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect the Group in all territories in which it underwrites. The majority of these were renewed favourably at 30 June 2015 with placement being secured to 80%, reflecting the presence of the Berkshire Hathaway quota share.

Where required by statute, unlimited cover is purchased where available and for other lines cover is placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

COUNTER-PARTY RISK

Strong counter-party risk profile maintained

The counter-party credit profiles for the key reinsurances of the Group as at 30 June 2015 are:

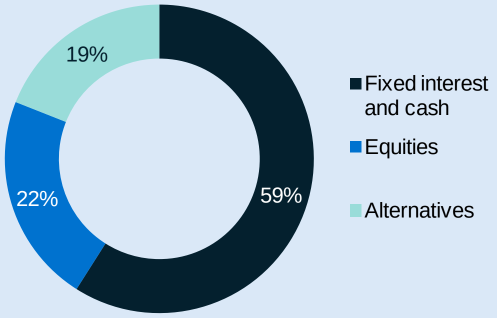
- Over 89% of limits placed with 'A+' or higher rated entities for the calendar 2015 property catastrophe programme; and
- 98% of limits placed with 'A+' or higher rated entities for the casualty programme.

11. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $15.5bn as at 30 June 2015
- Overall investment allocation remains conservatively positioned
- Technical reserves of $11.0bn all invested in fixed interest and cash
- Shareholders' funds of $4.5bn – growth asset weighting of 41%
- Strong investment return on technical reserves
- Shareholders' funds return influenced by more moderate equity market performance
- Strong credit quality maintained: 81% 'AA' or higher

Shareholders' Funds Mix



INVESTMENT PHILOSOPHY

The Group's investment philosophy is to:

- Manage the assets backing technical reserves and shareholders' funds separately;
- Invest the assets backing technical reserves, wherever possible, in securities with interest rate sensitivities that align to the underlying insurance liabilities;
- Invest the Group's shareholders' funds to maximise the return on risk-based capital, consistent with the Group's risk appetite and flexibility requirements; and
- Invest Group assets so that the contribution of investment risk to IAG's earnings volatility should not dominate the contribution from insurance risk.

Technical reserves invested to align with liability interest rate risk

INVESTMENT STRATEGIES

The Group's overall investment allocation remains conservatively positioned, with 88% of total investments in fixed interest and cash as at 30 June 2015. Technical reserves were entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was 59%.

The Group's allocation to growth assets was 41% of shareholders' funds at 30 June 2015, compared to 36% at 31 December 2014 and 42% at 30 June 2014. The lower weighting at 31 December 2014 reflected the timing of cash flows around the New Zealand earthquake strengthening at the end of 1H15.

Within the Group's allocation to growth assets, alternative investments accounted for over 19% of shareholders' funds as at 30 June 2015, compared to nearly 18% at 31 December 2014. These alternative investments typically display a lower volatility than equities, deliver a higher return than fixed income and increase overall investment diversification. The Group's largest allocation within this category is to global convertible bonds. Other exposures include a diversified portfolio of absolute return strategies and alternative fixed interest.

Distinct investment strategies for technical reserves and shareholders' funds

GROUP INVESTMENT ASSETS

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

Total investments of $15.5bn

11. INVESTMENTS

The level of investments at the end of FY15 was slightly higher than that at the conclusion of FY14. Notable ingredients behind this movement were:

- Significant dividend payments, of over $900m, which exceeded operating earnings during the year; and
- The $500m equity placement to Berkshire Hathaway in June 2015.

FY15 also saw the transfer of assets from shareholders' funds to technical reserves to support earthquake-related liabilities.

GROUP INVESTMENT ASSETS	1H14 A$bn	FY14 A$bn	1H15 A$bn	FY15 A$bn
Technical reserves	9.3	10.4	10.5	11.0
Shareholders' funds	5.5	5.0	4.7	4.5
Total investment assets	**14.8**	**15.4**	**15.2**	**15.5**

ASSET ALLOCATION

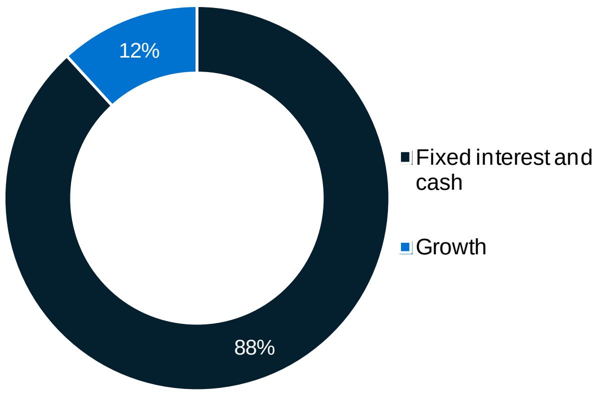
Since 31 December 2014, the main change to the Group's asset allocation is the higher weighting of growth asset categories within shareholders' funds.

88% of investments in fixed interest and cash

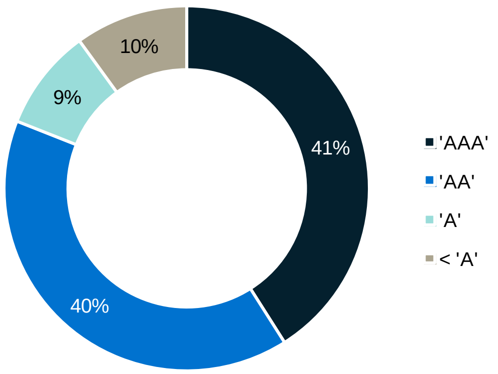
GROUP ASSET ALLOCATION

	1H14	FY14	1H15	FY15
SHAREHOLDERS' FUNDS	%	%	%	%
Australian equities	17.5	14.5	12.1	14.1
International equities	1.6	8.6	6.3	7.4
Alternatives	17.2	18.5	17.8	19.4
Fixed interest and cash	63.7	58.4	63.8	59.1
Total	**100.0**	**100.0**	**100.0**	**100.0**
TECHNICAL RESERVES	%	%	%	%
Fixed interest and cash	100.0	100.0	100.0	100.0
Total	**100.0**	**100.0**	**100.0**	**100.0**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL	%	%	%	%
Australian equities	6.5	4.7	3.7	4.1
International equities	0.6	2.8	2.0	2.1
Alternatives	6.3	6.0	5.5	5.6
Fixed interest and cash	86.6	86.5	88.8	88.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

GROUP ASSET ALLOCATION – 30 JUNE 2015



CREDIT QUALITY – 30 JUNE 2015



11. INVESTMENTS

CREDIT QUALITY OF ASSETS

The credit quality of the Group's investment book remains strong, with approximately 81% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality maintained

SENSITIVITY ANALYSIS

As at 30 June 2015, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below and includes indirect sensitivities relating to alternative assets.

INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 30 JUNE 2015	Change in Assumption +1% A$m	-1% A$m
Equity market values:		
Australian equities	6	(6)
International equities	5	(5)
Total equity market sensitivity	**11**	**(11)**
Interest rates:		
Technical reserves	(332)	354
Shareholders' funds	(34)	35
Total interest rate sensitivity	**(366)**	**389**

INVESTMENT PERFORMANCE

Moderation in future technical reserves return expected

A strong investment return was achieved on the technical reserves portfolio. Investment income of $562m on technical reserves in FY15 included:

- Unrealised capital gains of $167m at period end, primarily associated with a downwards shift in the yield curve since 30 June 2014. The equivalent movement in FY14 was a positive effect of $56m. The 3-year government bond yield fell to 2.02%, from 2.62% at 30 June 2014;
- A positive impact of $33m from the narrowing of credit spreads, with a modest widening experienced in 2H15. The equivalent movement in FY14 was a positive effect of $100m; and
- A favourable foreign exchange impact of $24m, including that from the hedge associated with reinsurance recoveries in respect of the New Zealand earthquakes in FY11, which are held by the offshore captive in Singapore. An equivalent adverse effect, of $48m, was recorded in FY14.

It is reasonable to expect a moderation in the investment return on technical reserves in the period beyond June 2015, given the lower level of credit spreads. The portfolio continues to be aligned with the average weighted duration of the Group's claims liability, at three to four years.

Lower shareholders' funds income owing to more subdued equity market

Investment returns on shareholders' funds were moderated by the relatively subdued performance of the Australian equity market in FY15. The broader Australian index (S&P ASX200 Accumulation) returned 5.7% over the twelve months to 30 June 2015. Stronger performances were recorded by international equities and alternative investments.

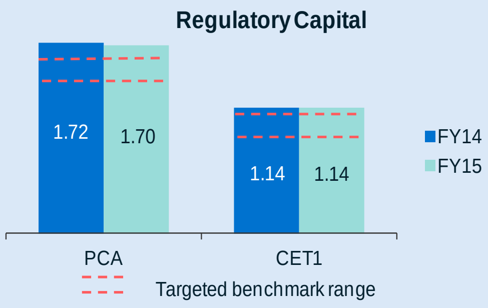
Lower shareholders' funds income also reflected lower average funds held.

INVESTMENT INCOME	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m
Technical reserves	87	352	427	135	439	562
Shareholders' funds	233	163	137	86	396	223
Total investment income	**320**	**515**	**564**	**221**	**835**	**785**

12. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet further strengthened by $500m equity placement
- Regulatory capital multiples in excess of long term benchmarks at 30 June 2015: PCA 1.70, CET1 1.14
- Capital mix towards low end of targeted range – debt and hybrids 33.8% of total tangible capitalisation
- S&P 'AA-' rating for core operating subsidiaries reaffirmed in June 2015



BALANCE SHEET

	1H14 A$m	FY14 A$m	1H15 A$m	FY15 A$m
Assets				
Cash and cash equivalents	360	447	250	306
Investments	14,803	15,377	15,190	15,535
Investments in joint ventures and associates	585	572	650	561
Premium receivable	2,673	3,316	3,118	3,251
Trade and other receivables	638	628	719	653
Reinsurance and other recoveries on outstanding claims	3,041	3,248	3,761	3,713
Deferred acquisition costs	797	1,028	994	1,015
Deferred reinsurance expense	869	706	881	1,823
Intangible assets	288	700	700	671
Goodwill	1,704	2,899	2,895	2,890
Other assets	760	827	1,052	984
Total assets	**26,518**	**29,748**	**30,210**	**31,402**
Liabilities				
Outstanding claims	10,642	12,006	12,831	12,687
Unearned premium	5,122	6,256	6,105	6,156
Interest bearing liabilities	1,696	1,752	1,772	1,762
Trade and other payables	1,206	1,514	1,295	1,321
Other liabilities	1,572	1,426	1,400	2,458
Total liabilities	**20,238**	**22,954**	**23,403**	**24,384**
Net assets	**6,280**	**6,794**	**6,807**	**7,018**
Equity				
Equity attributable to holders of ordinary shares	6,078	6,568	6,583	6,817
Non-controlling interests	202	226	224	201
Total equity	**6,280**	**6,794**	**6,807**	**7,018**

The total assets of the Group as at 30 June 2015 were $31,402m compared to $30,210m at 31 December 2014. Notable movements within the overall increase of nearly $1,200m were:

- A $345m increase in investments, largely owing to the funds inflow from the $500m equity placement to Berkshire Hathaway in June 2015;
- A near-$90m reduction in investments in joint ventures and associates reflecting the $60m writedown of the investment in Bohai Insurance and the receipt of a dividend from AmGeneral in Malaysia; and
- A $942m increase in deferred reinsurance expense, largely reflecting the inception of the Berkshire Hathaway quota share arrangement.

Balance sheet includes entries reflecting inception of Berkshire Hathaway quota share

12. BALANCE SHEET & CAPITAL

The 'other assets' category represents the aggregate of deferred levies and charges, deferred tax assets, property and equipment and other assets.

The total liabilities of the Group as at 30 June 2015 were $24,384m, compared to $23,403m at 31 December 2014. The increase of nearly $1,000m is primarily due to the increase in reinsurance premium payable housed within 'other liabilities', reflecting the inception of the Berkshire Hathaway quota share arrangement.

The 'other liabilities' category also includes current and deferred tax liabilities, employee provisions, unitholders' funds held by external holders of units in IAG-controlled trusts and other provisions and liabilities.

IAG shareholders' equity (excluding non-controlling interests) increased from $6,807m at 31 December 2014 to $7,018m at 30 June 2015, reflecting the combined effect of:

- The $500m equity placement to Berkshire Hathaway in June 2015;
- A sound operating earnings performance in the second half of the financial year; and
- Payment of the 13 cents per share dividend declared for 1H15 ($304m).

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 30 June 2015 stood at $3,561m, down from $3,595m at 31 December 2014, comprising $2,890m of goodwill (1H15: $2,895m) and $671m of other intangible assets (1H15: $700m).

Amortisation in the period was countered by foreign exchange movements and capitalised software additions.

OUTSTANDING CLAIMS

Net Outstanding Claims Liability

The Group's net outstanding claims liability at 30 June 2015 stood at $8,974m, compared to $8,758m at 30 June 2014. The movement over the year included:

- Claims reserves in respect of heightened natural perils activity in Australia, notably in 2H15;
- Increased net reserve strengthening for the FY11 earthquake events in New Zealand; and
- Yield curve movement impacts on claim reserves relating to long tail classes.

Higher net claims liability includes recent peril activity and earthquake reserve strengthening

As at 30 June 2015, the sensitivity of the Group's net outstanding claims liability to a 1% movement in the discount rate, as applied to expected future payments, was:

- +1%, a reduction in net outstanding claims liability of $255m; and
- -1%, an increase in net outstanding claims liability of $285m.

Claims Development

Note 10 of the Group's Annual Report includes a claims development table that shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claim costs for the ten most recent accident years as estimated at each reporting date. An extract from that table is set out on the following page.

12. BALANCE SHEET & CAPITAL

The table shows a history of the claim reserves being conservatively stated and generally demonstrates favourable development across the period, as the ultimate claim costs were settled or became more certain. An exception is the 2011 accident year, which reflects the adverse development of the New Zealand earthquake events which occurred in that period.

The table highlights that, as at 30 June 2015, more than 95% of the total estimated liability for the 2006 to 2010 accident years had been paid. The equivalent figure for the 2011 to 2013 accident years is over 80%, and in excess of 75% for the 2014 accident year.

	Accident Year Ended 30 June											
NET ULTIMATE CLAIMS PAYMENTS DEVELOPMENT TABLE	**2005 and prior A$m**	**2006 A$m**	**2007 A$m**	**2008 A$m**	**2009 A$m**	**2010 A$m**	**2011 A$m**	**2012 A$m**	**2013 A$m**	**2014 A$m**	**2015 A$m**	**TOTAL A$m**
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		**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**
Claims handling costs												406
Risk margin												1,559
Net outstanding claims liability												**8,974**
Gross outstanding claims liability on the balance sheet												12,687
Reinsurance and other recoveries on outstanding claims												(3,713)
Net outstanding claims liability												**8,974**

During FY13 the UK business was sold. The development table above includes claims related to the UK operation up to, and including, the 2012 accident year. Any outstanding claims relating to the UK that remained at the time of divestment have been treated as paid in the table above.

Risk Margins

The claims development table also identifies the total risk margin held to allow for the uncertainty surrounding the outstanding claims liability estimation process. The risk margin is set to take into account the correlations assessed between outstanding claim liabilities arising from the various forms of business underwritten by the different entities within the consolidated Group. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.

The Group's policy is for the risk margin to be set so as to provide an overall probability of adequacy for the outstanding claims liability of 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment. The Group's probability of adequacy of the claims liability for FY15 is 90%, which is unchanged from the prior year.

Insurers are in the business of accepting and managing risks. A key feature of insurance businesses is diversification between risks and without it the insurance business would not exist. The Group uses diversification to manage the portfolio of risks that arise in the business.

The risk margin applied to the net central estimate of the outstanding claims liability was 21.0% at 30 June 2015 (FY14: 22.5%). The movement over the year reflects changes in business mix.

12. BALANCE SHEET & CAPITAL

CAPITAL

Capital Adequacy

Strong capital position, above long term benchmarks

The Group is strongly capitalised, with regulatory capital of nearly $4.8bn at 30 June 2015.

At that date, the Group's Prescribed Capital Amount (PCA) multiple was 1.7, compared to a targeted benchmark of 1.4 to 1.6 times. This has increased from the 1.62 multiple reported at 31 December 2014, owing to the net effect of:

- The $500m equity placement to Berkshire Hathaway in June 2015;
- Payment of the interim dividend, which exceeded natural peril-affected 2H15 earnings; and
- Required amortisation of hybrid debt instruments.

A modest initial impact from the 20% quota share agreement with Berkshire Hathaway is reflected in the regulatory capital position at 30 June 2015. More significant capital relief from the quota share is expected in FY16, with residual effects extending out to FY20.

At 30 June 2015 the Group's Common Equity Tier 1 (CET1) ratio was 1.14 times the PCA, compared to a targeted range of 0.9 to 1.1 times. The regulatory requirement is 0.6 times.

After allowance for the 2H15 dividend of 16 cents per share, which will be paid in October, the PCA and CET1 multiples at 30 June 2015 would stand at 1.56 and 1.00 respectively.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	FY14 A$m	1H15 A$m	FY15 A$m
Common Equity Tier 1 Capital (CET1)			
Ordinary shares	6,775	6,775	7,275
Reserves	38	102	(38)
Retained earnings	(151)	(208)	(337)
Technical provisions in excess of liabilities	914	921	748
Minority interests	226	224	201
Less: Deductions	(4,514)	(4,773)	(4,637)
Total Common Equity Tier 1 Capital	**3,288**	**3,041**	**3,212**
Additional Tier 1 Capital			
Hybrid equities	817	817	762
Total Tier 1 Capital	**4,105**	**3,858**	**3,974**
Tier 2 Capital			
Subordinated term notes	876	876	811
Total Tier 2 Capital	**876**	**876**	**811**
Total Regulatory Capital	**4,981**	**4,734**	**4,785**
Prescribed Capital Amount (PCA)			
Insurance risk charge	1,624	1,560	1,500
Insurance concentration risk charge	225	250	200
Diversified asset risk charge	1,441	1,502	1,489
Aggregation benefit	(729)	(739)	(715)
Operational risk charge	335	345	343
Total Prescribed Capital Amount	**2,896**	**2,918**	**2,817**
PCA multiple	**1.72**	**1.62**	**1.70**
CET1 multiple	**1.14**	**1.04**	**1.14**

12. BALANCE SHEET & CAPITAL

Interest Bearing Liabilities

The Group's interest bearing liabilities stood at $1,762m at 30 June 2015, compared to $1,772m at 31 December 2014. There were no changes in composition over the period, with any movement driven by foreign exchange translation effects.

No changes to debt mix in FY15

INTEREST BEARING LIABILITIES	1H14 A$m	FY14 A$m	1H15 A$m	FY15 A$m
Subordinated debt	777	834	852	841
Convertible Preference Shares	377	377	377	377
Reset Exchangeable Securities	550	550	550	550
Capitalised transaction costs/other	(8)	(9)	(7)	(6)
Total interest bearing liabilities	**1,696**	**1,752**	**1,772**	**1,762**

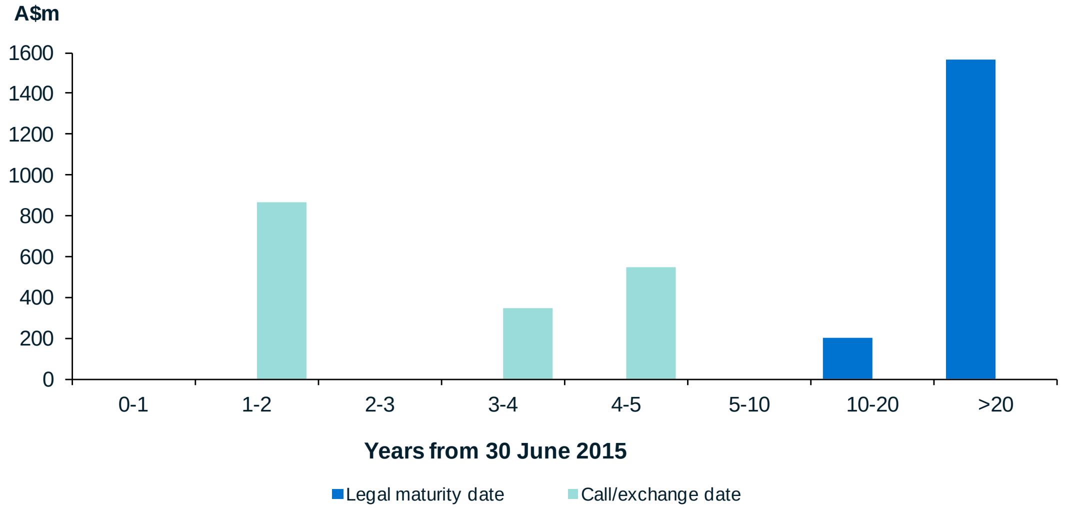
GROUP DEBT & HYBRID CAPITAL	Principal amount m	A$m	Yield (net of swaps) %	Rate	First Call or Exchange date	S&P rating
Subordinated term notes[1]	A$350	350	4.94%	Variable	Mar-19	'A-'
Subordinated fixed rate notes	£100	205	5.63%	Fixed	Dec-16	'BBB+'
Subordinated fixed rate bonds	NZ$325	286	7.50%	Fixed	Dec-16	'BBB+'
Total Debt		**841**				
Convertible Preference Shares (IAGPA)[2]	A$377	377	4.38%	Variable	May-17	'N/R'
Reset Exchangeable Securities (IANG)[3]	A$550	550	4.31%	Variable	Dec-19	'BBB+'

[1] *Stated yield based on margin of BBSW + 2.80%.*

[2] *Dividend yield on the Convertible Preference Shares is a cash yield, excluding attached franking credits. The principal excludes capitalised transaction costs.*

[3] *The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.*

GROUP DEBT MATURITY PROFILE



12. BALANCE SHEET & CAPITAL

Capital Mix

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

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

At 30 June 2015, the Group's capital mix was in the lower half of the targeted range, with debt and hybrids representing 33.8% of total tangible capitalisation.

Capital mix in lower half of targeted range

CAPITAL MIX	1H14 A$m	FY14 A$m	1H15 A$m	FY15 A$m
Shareholder equity	6,280	6,794	6,807	7,018
Intangibles and goodwill	(1,992)	(3,599)	(3,595)	(3,561)
Tangible shareholder equity	**4,288**	**3,195**	**3,212**	**3,457**
Interest bearing liabilities	1,696	1,752	1,772	1,762
Total tangible capitalisation	**5,984**	**4,947**	**4,984**	**5,219**
Debt to total tangible capitalisation	**28.3%**	**35.4%**	**35.6%**	**33.8%**

Credit Ratings

On 16 June 2015, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' insurer financial strength and issuer credit ratings in respect of IAG's core operating subsidiaries, as well as its 'A' issuer credit rating of the non-operating holding company, Insurance Australia Group Limited. The outlook on all entities is stable.

APPENDIX A BRAND PORTFOLIO

PORTFOLIO OF INSURANCE BRANDS AND MARKETS

1 *IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.*

2 *IAG owns 100% of WFI Insurance Limited (WFI), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an authorised representative agreement with WFI.*

3 *IAG holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.*

4 *IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.*

5 *IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.*

6 *IAG owns 20% of Bohai Property Insurance Company Ltd, based in China.*

7 *IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.*

8 *IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.*

9 *All ownership percentages as at 30 June 2015.*

APPENDIX B IAG BUSINESS SNAPSHOT

PERSONAL INSURANCE

Personal insurance products are sold in Australia directly through branches, call centres, the internet and representatives, under:

- The NRMA Insurance brand in NSW, ACT, Queensland and Tasmania;
- The SGIO brand in Western Australia;
- The SGIC brand in South Australia;
- The RACV brand in Victoria, via a distribution agreement with RACV;
- The Coles Insurance brand nationally, via a distribution agreement with Coles; and
- The CGU brand through affinity and financial institution partnerships and broker and agent channels.

Personal Insurance also includes travel insurance, life insurance, income protection and funeral products which are underwritten by third parties.

Short tail insurance

- Motor vehicle
- Home and contents
- Lifestyle and leisure insurance, such as boat, veteran and classic car and caravan

Long tail insurance

- Compulsory Third Party (motor injury liability)

COMMERCIAL INSURANCE

Commercial insurance products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. Commercial Insurance is a leading provider of business and farm insurance, and also provides workers' compensation services in every state and territory, except South Australia and Queensland.

Commercial Insurance operates across Australia under the following brands:

- CGU Insurance;
- Swann Insurance;
- WFI;
- NRMA Insurance;
- RACV;
- SGIC; and
- SGIO.

Short tail insurance

- Business packages
- Farm and crop
- Commercial property
- Construction and engineering
- Niche insurance, such as consumer credit
- Commercial motor and fleet motor
- Marine

Long tail insurance

- Workers' compensation
- Professional indemnity
- Directors' and officers'
- Public and products liability

NEW ZEALAND

The New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers, primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley Insurance brands. Personal products and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.

Short tail insurance

- Motor vehicle
- Home and contents
- Commercial property, motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat, caravan and travel
- Rural and horticultural
- Marine

Long tail insurance

- Personal liability
- Income protection
- Commercial liability

APPENDIX B IAG BUSINESS SNAPSHOT

ASIA

The Group has interests in six general insurance businesses in Asia:

- A 98.6% beneficial interest in Safety Insurance in Thailand;
- 49% of AmGeneral Holdings Berhad, a joint venture in Malaysia;
- 26% of SBI General Insurance Company, a joint venture in India;
- 20% of Bohai Property Insurance Company Ltd, in China;
- 63.17% of AAA Assurance Corporation, in Vietnam; and
- 80% of PT Asuransi Parolamas, in Indonesia.

APPENDIX C KEY RELATIONSHIPS

GLOBAL

BERKSHIRE HATHAWAY

Berkshire Hathaway Inc. is one of the ten largest listed companies in the world, by market capitalisation. It owns a diversified portfolio of businesses and investments, of which interests in the insurance and reinsurance industries form a significant part.

IAG has had a transactional relationship with Berkshire Hathaway since 2000, primarily in the area of reinsurance. That relationship has developed and deepened over the years, including a growing presence on IAG's catastrophe programme.

In June 2015, IAG formed a strategic partnership with Berkshire Hathaway, in a logical development of the relationship between the two parties. It comprises:

- An exclusive operating relationship in Australia and New Zealand;
- A ten-year, 20% whole-of-account quota share arrangement, commencing 1 July 2015; and
- A $500m equity placement to Berkshire Hathaway, representing approximately 3.7% of IAG's expanded issued capital at the point of issue.

Expected benefits to IAG include the harnessing of complementary operating capabilities, reduced earnings volatility via the quota share and significant capital flexibility.

AUSTRALIA

THE NATIONAL ROADS & MOTORISTS' ASSOCIATION

The National Roads & Motorists' Association was established in 1920 and is a mutual organisation with over 2.4 million members in NSW and the ACT. Until August 2000 it owned the NRMA Insurance business which now forms the majority of IAG's Personal Insurance division. Under the terms of the demutualisation agreements, from that date The National Roads & Motorists' Association and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- The National Roads & Motorists' Association – roadside assistance and other motoring services (except smash repairs), motoring products, transportation and travel.
- IAG (NRMA Insurance) – insurance and financial services and any other good or service not specifically reserved for The National Roads & Motorists' Association.

In addition, both parties cannot, under any brand, carry out activities engaged in by the other at the point of demutualisation.

IAG continues to provide certain services to The National Roads & Motorists' Association, notably those in respect of the NRMA branch network which is operated and managed by IAG. The two organisations retain a strong and closely aligned relationship.

The National Roads & Motorists' Association and its members received IAG shares as consideration for the NRMA Insurance business at demutualisation.

APPENDIX C KEY RELATIONSHIPS

RACV

RACV is a mutual organisation founded in 1903. It provides a diverse range of services to more than two million members. These services include: insurance; finance; roadside assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.

IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV established in 1999. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV.

If one of IMA's shareholders was to experience a change of control, the other has a pre-emptive right to acquire that shareholder's interest in IMA at fair market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA's reinsurance of NRMA Insurance-branded products in NSW and the ACT.

COLES INSURANCE

Coles Insurance is part of the Coles Financial Services offering affiliated with the Coles supermarket chain in Australia, itself a wholly-owned operation of Wesfarmers Limited, a major diversified listed Australian company.

IAG established a ten-year distribution agreement with Coles Insurance as part of the transaction which saw it acquire the former Wesfarmers Insurance underwriting operations, effective 30 June 2014.

Under this agreement, Personal Insurance underwrites car and home products for Coles Insurance.

APPENDIX C KEY RELATIONSHIPS

ASIA

AMBANK GROUP

AmBank Group is one of Malaysia's premier financial solutions groups with nearly 40 years of legacy in understanding Malaysian customers. It provides a wide range of both conventional and Islamic financial products and services, including retail and wholesale banking, as well as the underwriting of general insurance, life assurance and family takaful.

IAG has a general insurance joint venture in Malaysia with AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which was established in 2006. AmBank Group currently owns 51% of AmGeneral and IAG 49%. AmGeneral became Malaysia's largest motor insurer following the purchase of Kurnia Insurans (Malaysia) Berhad in September 2012.

STATE BANK OF INDIA

State Bank of India (SBI) is India's largest and oldest bank, with origins that can be traced back to 1806. It offers a broad range of banking and financial services, and has a footprint which spans over 270 million customers and in excess of 16,000 branches across all states of India, excluding associate banks.

SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. SBI General commenced operations in 2010 and is building a portfolio in the corporate, retail and SME markets across India, with the majority in the retail segment through SBI's bancassurance channel. SBI General has an exclusive corporate agency agreement with SBI and all of its five associate banks for general insurance business.

SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49% and has commenced the process to lift it to this level, following the change in the Indian foreign direct investment limit.

TEDA

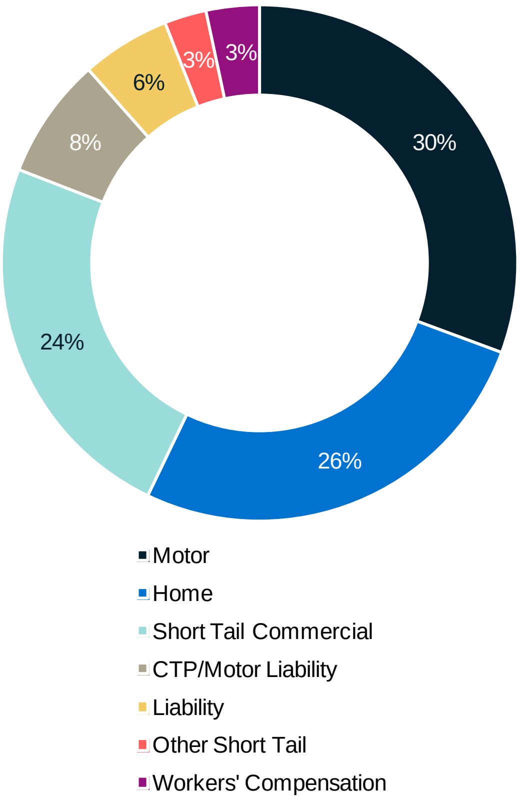
TEDA International Holding Group Co., Ltd (TEDA International) has majority ownership of Bohai Property Insurance Company Ltd (Bohai Insurance). TEDA International is a Chinese state-controlled investment company which was established in December 2007. Its main scope of business covers commercial banking, securities, property insurance, life insurance, funds management and trust company activities. At the end of June 2015, TEDA International owned two holding companies and seven joint venture companies, with total assets in excess of RMB 38.1bn.

Bohai Insurance was founded in October 2005 by TEDA Investment Holding and is headquartered in Tianjin in northern China. Bohai has 25 branches, over 240 sub-branches and a network of agents, with over 3,000 employees across China. It holds a full licence in non-life insurance, with motor premiums representing nearly 90% of total revenue.

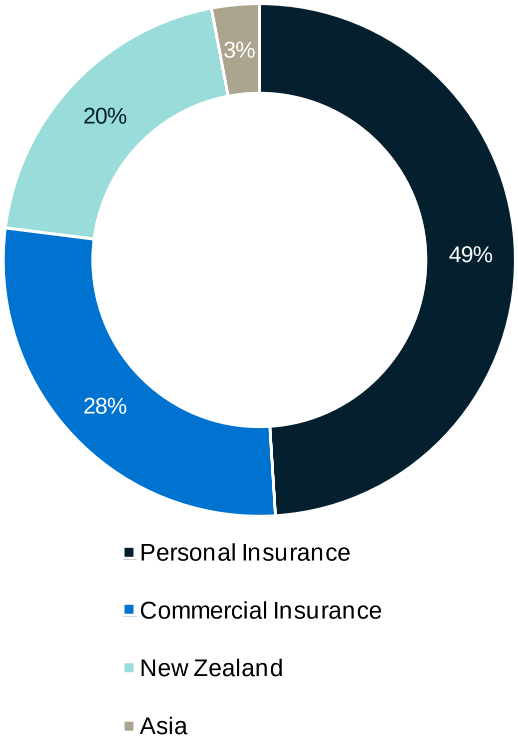
In April 2012, IAG entered into a strategic partnership with Bohai Insurance through a 20% ownership position.

APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

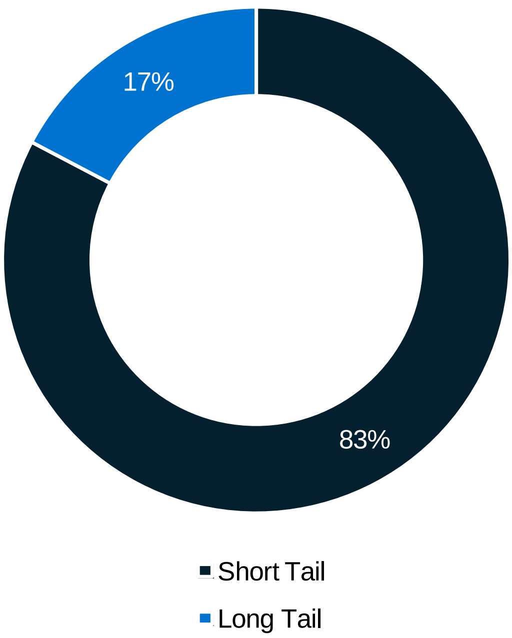
IAG GROUP GWP BY PRODUCT — FY15



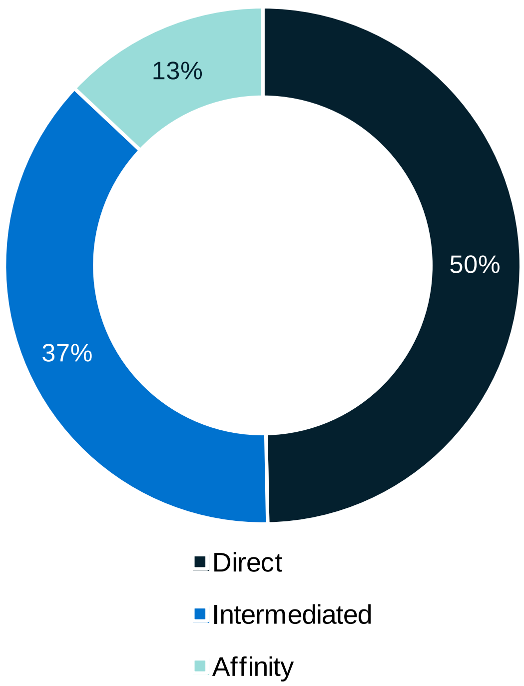
IAG GROUP GWP BY BUSINESS — FY15



IAG GROUP GWP BY TAIL — FY15



IAG GROUP GWP BY CHANNEL — FY15



APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 2014 is set out below. It does not include announcements of changes in directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements if further information is required. These are available at http://www.iag.com.au.

5-JAN-15 2015 CATASTROPHE REINSURANCE COVER

IAG announced it had finalised its catastrophe reinsurance programme for the calendar year commencing 1 January 2015. The programme provides reinsurance protection up to $7bn. The combination of all catastrophe covers in place at 1 January 2015 resulted in maximum first event retentions of $250m for Australia, NZ$250m for New Zealand, $25m for Thailand and Malaysia, and less than $1m for Vietnam.

18-FEB-15 IAG REPORTS SOUND OPERATING PERFORMANCE FOR 1H15

IAG reported a sound operating performance in an increasingly competitive environment, posting an insurance profit of $693m for the half year ended 31 December 2014, down from $758m in 1H14. This equated to a reported insurance margin of 13.4% compared to 17.5% for 1H14. IAG's underlying margin performance remained strong at 13.3%. GWP increased by 17.1% to $5.6bn, mainly due to the addition of the former Wesfarmers business. The Board declared a fully franked interim dividend of 13 cents per share.

23-FEB-15 IAG PROVIDES UPDATE ON TROPICAL CYCLONE MARCIA

IAG announced it had received approximately 700 claims for damage, as of Sunday 22 February, in relation to Tropical Cyclone Marcia. Approximately 90% of the claims received related to property damage caused by heavy rain and high winds in Queensland and northern New South Wales. IAG advised it was still too early to determine the financial impact of this event.

4-MAR-15 TROPICAL CYCLONE MARCIA UPDATE

IAG announced it had received approximately 3,500 claims, as at 3 March, for damage in relation to Tropical Cyclone Marcia. IAG advised its current expectation was that the event would result in a net claim cost of $60-90m.

11-MAR-15 IAG ANNOUNCES CHANGES TO EXECUTIVE TEAM

IAG announced changes to its executive team, effective 31 March, 2015. These comprised:

- IAG Chief Executive Commercial Insurance, Peter Harmer, leading the Group's digital strategy over 2015;
- Chief Commercial Officer for IAG's Commercial Insurance business, Ben Bessell, becoming acting Chief Executive Commercial Insurance;
- Leona Murphy resuming the role of Chief Strategy Officer while retaining her current responsibility for managing the programme to move to the new operating model and integrating the former Wesfarmers insurance business; and
- IAG's Chief Risk Officer, Justin Breheny, retiring in April 2015 with acting Chief Strategy Officer, Clayton Whipp, appointed to the role.

23-MAR-15 DIVIDEND REINVESTMENT PLAN PRICING

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at $5.9916 per share for the dividend payable on 1 April 2015.

APPENDIX E KEY ASX RELEASES

23-APR-15 IAG NEW SOUTH WALES STORMS UPDATE

IAG advised it had received over 10,000 claims, as at 11am on 23 April, for damage in relation to the NSW storms that occurred that week.

29-APR-15 NSW STORMS AND FY15 INSURANCE MARGIN GUIDANCE UPDATE

IAG announced it had received nearly 30,000 claims, as at 28 April, as a result of the major storms that impacted NSW the previous week. IAG advised a current expectation that the net cost of this event to the Group would be $250m, in line with the maximum event retention under its 2015 calendar year catastrophe reinsurance programme. As a result of recent events and other perils experience, IAG revised its net natural peril claim cost assumption for FY15 to $1bn, and its FY15 insurance margin guidance range to 10.5-12.5%, down from 13.5-15.5%.

22-MAY-15 IAG URGES BUSINESS COMMUNITY TO ACT ON ASIAN OPPORTUNITY

Speaking at an American Chamber of Commerce business briefing in Melbourne, IAG Managing Director and CEO Mike Wilkins called on the Australian business community to quickly recognise and act on the Asian growth opportunity. Mr Wilkins said IAG sees enormous potential as it builds its presence in the region. IAG also announced the purchase of a licence in Indonesia through the acquisition of a small, local insurer, being the first step in IAG's plan to enter that market.

16-JUN-15 IAG FORMS STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY

IAG announced it had entered a strategic relationship agreement to establish a long term partnership with Berkshire Hathaway Inc., enabling both parties to draw on each other's strengths to better meet customer needs and deliver superior business outcomes. IAG advised that the agreement includes:

- A ten-year whole-of-account 20% quota share arrangement effective 1 July 2015, which is expected to result in a reduced capital requirement for IAG of approximately $700m over a five-year period;
- A $500m placement of new ordinary shares to Berkshire Hathaway, at $5.57 per share and equivalent to approximately 3.7% of IAG's expanded capital, with an option to place up to a further 5% within 24 months; and
- An exclusive relationship in Australia and New Zealand under which IAG acquires Berkshire Hathaway's local personal and SME business lines and, in return, Berkshire Hathaway acquires the renewal rights to IAG's large-corporate property and liability insurance business in Australia.

IAG also reaffirmed its guidance for FY15, and provided initial guidance for FY16, which comprised a reported insurance margin in the range of 14-16%, which includes an enhancement of approximately 200 basis points from the quota share arrangement, and GWP growth of 0-3%.

26-JUN-15 IAG APPOINTS DEPUTY CHAIRMAN

IAG announced the appointment of Elizabeth Bryan to the role of Deputy Chairman.

31-JUL-15 IAG FOCUSES ON THE FUTURE WITH EXECUTIVE APPOINTMENT AND NEW DIVISION

IAG announced the appointment of Peter Harmer to the role of Chief Executive IAG Labs with responsibility for driving digital and innovation across IAG and its brands. The new division will be IAG's digital hub for innovation, bringing together a number of existing functions as well as creating some new incubator areas which will specifically explore new opportunities across the broader business.

APPENDIX E KEY ASX RELEASES

11-AUG-15 IAG APPOINTS NON-EXECUTIVE DIRECTOR

IAG announced the appointment of Jonathan Nicholson to the Board, as an independent non-executive director, effective 1 September 2015.

APPENDIX F GLOSSARY

The following is a glossary of the terms used in this report, including those commonly used in the insurance industry.

AFFINITY	A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.
APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange Limited.
CASH EARNINGS	IAG defines cash earnings as net profit after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of the Group's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.
CASH ROE	IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles.
COMBINED RATIO	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
COMMON EQUITY TIER 1 CAPITAL (CET1)	The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.
CONVERTIBLE PREFERENCE SHARES (CPS)	Convertible Preference Shares were issued by IAG in May 2012 and are quoted as IAGPC on ASX.
CREDIT SPREAD	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
DEFERRED ACQUISITION COSTS (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DISCOUNT RATE	In accordance with Australian accounting standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.
DIVISIONAL	Divisional is the same as segment in the audited financial statements.

APPENDIX F GLOSSARY

DRP	Dividend Reinvestment Plan. This plan permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
EXPENSE RATIO	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
GROSS EARNED PREMIUM	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
GROSS WRITTEN PREMIUM (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
GROUP	Insurance Australia Group Limited (IAG) and its subsidiaries.
IFRS	International Financial Reporting Standards.
IMMUNISED RATIO	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
INSURANCE MARGIN	The ratio of insurance profit to net earned premium.
INSURANCE PROFIT	Underwriting result plus investment income on assets backing technical reserves.
LAGIC	APRA's Life and General Insurance Capital regulatory regime, which became operative on 1 January 2013.
LEVIES	Levies are taxes on insurers to assist government funding for fire and emergency services. They are an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying levies, usually in arrears. In Australia, these comprise the Emergency Services Levy (ESL) in NSW and the Fire Services Levy (FSL) in Tasmania (commercial property lines only). Levies are included in GWP and expenses for reporting purposes.
LIABILITY ADEQUACY TEST (LAT)	Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the write down of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability.

APPENDIX F GLOSSARY

LONG TAIL	Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.
LOSS RATIO	The ratio of net claims expense to net earned premium.
MER	Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.
NATURAL PERILS	Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.
NATURAL PERILS ALLOWANCE	The natural perils expense forecast to be incurred within a specified period of time based upon previous experience and management judgement, which is reflected in the pricing of related insurance products for the same period.
NATURAL PERILS EXPENSE	Losses arising from natural perils after deducting any applicable reinsurance recoveries.
NET CLAIMS EXPENSE	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
NET EARNED PREMIUM (NEP)	Net earned premium is gross earned premium less reinsurance expense.
PCA / PCR	Prescribed Capital Amount or Prescribed Capital Requirement, as defined by APRA under its LAGIC regime.
PROBABILITY OF ADEQUACY (POA)	The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency.
RECOVERIES	The amount of claims recovered from reinsurers, third parties or salvage.
RESET EXCHANGEABLE SECURITIES (RES)	Reset Exchangeable Securities (RES) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited. The issuer is a wholly-owned subsidiary of IAG.
RISK FREE RATE	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.
RISKS IN FORCE	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.

APPENDIX F GLOSSARY

ROE	Return on equity.
SHAREHOLDERS' FUNDS	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
SHORT TAIL	Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
SME	Small-to-medium enterprise.
TECHNICAL RESERVES	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.
TSR	Total shareholder return.
UNDERLYING MARGIN	IAG defines underlying margin as the reported insurance margin adjusted for: ▪ Net natural peril claim costs less related allowance; ▪ Reserve releases in excess of 1% of NEP; and ▪ Credit spread movements. The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.
UNDERWRITING	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
UNDERWRITING EXPENSES	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
UNDERWRITING PROFIT / (LOSS)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
UNEARNED PREMIUM	Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.

DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:

- ASX code for Ordinary Shares: **IAG** (2,431,384,655 on issue at 30 June 2015)
- ASX code for Reset Exchangeable Securities: **IANG** (5,500,000 on issue at 30 June 2015)
- ASX code for Convertible Preference Shares: **IAGPC** (3,773,728 on issue at 30 June 2015)

London Stock Exchange:

- LSE code for Fixed Rate Subordinated Notes due 2026: **70QG** (£100.3m outstanding at 30 June 2015)

NZX Limited:

- NZDX code for Unsecured Subordinated Bonds due 2036: **IAGFA** (NZ$325m outstanding at 30 June 2015)

KEY DATES

Final dividend – ordinary shares	
▪ Ex-dividend date	7 September 2015
▪ Record date	9 September 2015
▪ DRP record date	10 September 2015
▪ Payment date	7 October 2015
Payment date for IANG and IAGFA quarterly distributions	15 September 2015
Annual General Meeting	21 October 2015
Payment date for IAGPC dividend	2 November 2015
Payment date for IANG and IAGFA quarterly distributions	15 December 2015
Announcement of half year results to 31 December 2015	18 February 2016*
Interim dividend – ordinary shares	
▪ Ex-dividend date	29 February 2016*
▪ Record date	2 March 2016*
▪ DRP record date	3 March 2016*
▪ Payment date	30 March 2016*
Payment date for IANG and IAGFA quarterly distributions	15 March 2016
Payment date for IAGPC dividend	2 May 2016
Payment date for IANG and IAGFA quarterly distributions	15 June 2016
Announcement of full year results to 30 June 2016	19 August 2016*

These dates are indicative only and are subject to change. Any change will be announced on ASX.

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