INSURANCE AUSTRALIA GROUP LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2015

APPENDIX 4D (ASX Listing rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	31 December 2015 $m	31 December 2014 $m
Revenue from ordinary activities	Up	3.7 %	**8,235**	7,945
Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent	Down	19.5 %	**466**	579
Net profit/(loss) attributable to IAG shareholders	Down	19.5 %	**466**	579

DIVIDENDS - ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Interim dividend	13.0 cents	13.0 cents
Special dividend	10.0 cents	10.0 cents

INTERIM AND SPECIAL DIVIDENDS DATE	
Record date	2 March 2016
Payment date	30 March 2016

The Company's Dividend Reinvestment Plan (DRP) will operate for the interim and special dividends by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 3 March 2016. The DRP Issue Price will be based on a volume weighted average share price for a 15 day trading window from 3 March 2016 to 23 March 2016 inclusive.

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

Additional Appendix 4D disclosure requirements can be found in the half year financial report of Insurance Australia Group Limited for the period ended 31 December 2015 (Attachment A). This report is also to be read in conjunction with the annual report of Insurance Australia Group Limited for the year ended 30 June 2015 and any public announcements made by Insurance Australia Group Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

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

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2015

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the half year ended 31 December 2015 and the Auditor's Report thereon.

The following terminology is used throughout the financial report:
- IAG, Parent or Company - Insurance Australia Group Limited; and
- Group or Consolidated - the Consolidated entity consisting of Insurance Australia Group Limited and its subsidiaries.

DIRECTORS

The Company's Directors in office at any time during or since the end of the half year are as follows. Directors were in office for the entire period unless otherwise stated.

Brian Schwartz (Director since 1 January 2005), Yasmin Allen (Director from 10 November 2004 to 30 September 2015), Elizabeth Bryan (Director since 5 December 2014), Alison Deans (Director since 1 February 2013), Hugh Fletcher (Director since 1 September 2007), Peter Harmer (Director since 16 November 2015), Raymond Lim (Director since 1 February 2013), Jonathan Nicholson (Director since 1 September 2015), Tom Pockett (Director since 1 January 2015), Philip Twyman (Director since 9 July 2008) and Michael Wilkins (Director from 26 November 2007 to 16 November 2015).

PRINCIPAL ACTIVITY

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

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

I. Consumer Division

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

II. Business Division

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

III. New Zealand

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

IV. Asia

This segment provides direct and intermediated insurance business underwritten through subsidiaries in Thailand, Vietnam and Indonesia and the share of the operating result from the investment in associates in Malaysia and India. The businesses offer personal and commercial insurance products through local brands.

V. Corporate and other

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

During the half year ended 31 December 2015, Insurance Australia Group Limited (IAG) produced a sound performance in a challenging operating environment. IAG's personal lines franchises in Australia and New Zealand continued to deliver strong profitability and modest growth. In contrast, equivalent commercial markets have been under pressure. The 20% quota share arrangement with Berkshire Hathaway commenced 1 July 2015 and met IAG's expectations. It lowered overall earnings volatility, reduced regulatory capital requirements and enhanced IAG's insurance margin.

The Group's profit after tax for the half year was $506 million (31 December 2014-$642 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $466 million (31 December 2014-$579 million), a decrease of 19.5%.

There was a reduction in gross written premium (GWP) of 1.1% (31 December 2014-growth of 17.1%). The reduction in GWP is consistent with IAG's 'relatively flat' full year guidance, and comprised:
- modest growth in short-tail personal lines from a mixture of rate and volume, in both Australia and New Zealand, in a competitive setting;
- some offset from reduced long-tail personal lines volumes in Australia (CTP), where claims frequency trends remain a concern;
- a continuation of challenging commercial market conditions embracing lower volumes from strict application of underwriting disciplines, as well as weaker average rates; and
- sound growth in Asia, where increased penetration of the used car market and improved retention in Thailand was amplified by a favourable foreign exchange translation effect.

For the current half year, the reported insurance profit was lower than the previous corresponding half year period; with a reported insurance margin of 14.9% (31 December 2014-13.4%) incorporating the positive quota share effect, as well as:
- net natural peril claim costs of $278 million (31 December 2014-$421 million), which were $22 million lower than the related allowance;
- prior period reserve releases of $60 million, equivalent to 1.5% of net earned premium (NEP), down from $92 million (1.8% of NEP) in the corresponding half year; and
- an adverse credit spread impact of $15 million, compared to a favourable effect of $40 million in the corresponding half year.

The prior period reserve release outcome contains two distinct and largely offsetting elements:
- higher than expected releases from Australian long-tail classes; and
- a NZ$150 million increase to risk margin in respect of the February 2011 Canterbury earthquake event.

The Group's underlying profitability has remained strong, with an underlying margin of 14.2%, compared to 13.3% in the six month period to 31 December 2014. The underlying margin contains a favourable effect of approximately 250 basis points (bps) from the 20% quota share arrangement with Berkshire Hathaway, which commenced on 1 July 2015 for a minimum term of ten years. Aside from the quota share impact, the higher underlying margin is a function of:
- maintenance of strong profitability in personal lines in Australia and New Zealand;
- pressure on returns in the equivalent commercial lines markets, in the face of lower rates and volumes;
- underlying claim costs broadly consistent with prior periods, with modest cost inflation and some examples of increased frequency, most notably in NSW CTP; and
- relatively flat expenditure, with further benefits from the integration of the former Wesfarmers business and the new operating model in Australia countered by reinvestment in key aspects of the business.

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

	31 December 2015		31 December 2014	
INSURANCE MARGIN	**$m**	**%**	$m	%
Reported insurance margin*	**610**	**14.9**	693	13.4
Net natural peril claim costs less allowance	**(22)**	**(0.6)**	71	1.4
Reserve releases in excess of 1% of NEP	**(19)**	**(0.5)**	(40)	(0.8)
Credit spread movements	**15**	**0.4**	(40)	(0.8)
Underlying insurance margin	**584**	**14.2**	684	13.3

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

IAG reported a tax expense of $67 million in the current half year, compared to $68 million in the corresponding half year, representing an effective tax rate (pre-amortisation) of approximately 11.1% (31 December 2014-9.0%).

The lower than normal reported tax rate reflects the recognition of further reinsurance recoveries in respect of the September 2010 earthquake event by IAG's captive vehicle in a lower tax jurisdiction. The resolution of a tax audit relating to IAG's former UK operations was also a factor.

Investment income on shareholders' funds was a profit of $52 million, a decrease of over 63% on the profit of $142 million in the corresponding half year. This was driven by a much weaker equity performance in the six months to 31 December 2015, with the broader Australian index (S&P ASX200 Accumulation) delivering a negative result of 0.5%.

A. CONSUMER DIVISION

The Consumer Division, which represents 51% of Group GWP, remains a market leader in Australian personal lines and has performed well. The division reported a margin of 24.6%.

I. Premiums

Consumer Division's GWP increased by 1.6%, to $2,848 million in the current half year (31 December 2014-$2,802 million). The growth was mainly due to short-tail home and motor lines, partially offset by lower CTP GWP.

Short-tail lines accounted for approximately 85% of divisional GWP and grew by 2.4%. This was characterised by high retention levels, supported by targeted price and volume-generating initiatives. Short-tail GWP performance comprised modest growth from the large established brands, while Coles Insurance has continued to register strong growth off a small base. The period also included the first modest contribution from the underwriting of Steadfast personal lines, secured as part of the Berkshire Hathaway agreement. Long-tail (primarily CTP) GWP reduced by 2.3%, compared to the corresponding half year. This was primarily due to reduced market share in ACT and NSW.

II. Insurance profit
Consumer Division reported an insurance profit for the half of $495 million, compared to $391 million in same period last financial year.

The main influences behind the significantly higher reported margin were the quota share-related uplift, markedly higher reserve releases and lower natural peril losses. The result also absorbed an adverse credit spread movement of over $30 million relative to the corresponding half year. At an underlying level, the Consumer Division's performance has remained strong. The higher underlying margin of 15.5% (31 December 2014-14.0%) aligns with the aforementioned favourable quota share effect, with some modest offset from:

- increased reinvestment in the business;
- deterioration in NSW CTP profitability owing to the increased frequency of lower severity claims; and
- some deterioration in motor collision underlying claims experience, primarily from frequency.

B. BUSINESS DIVISION
The Business Division represented 26% of Group GWP. The division had a GWP decline of 6.3% reflecting tougher commercial market conditions. The integration of the former Wesfarmers business continues to proceed to plan and increased synergies were realised. There was a sound underlying margin of 10.7%, while the reported margin of 8.4% was adversely impacted by natural perils.

I. Premiums
The Business Division's GWP was $1,419 million (31 December 2014-$1,514 million). Retention levels remained strong in most portfolios, with overall GWP reflecting lower average rates and market weakness in specific portfolios, such as workers' compensation and strata. The transfer of renewal rights within the large-corporate property portfolio to Berkshire Hathaway under the terms of the strategic relationship also contributed to the decline in GWP. In the face of persistently soft market conditions, the Business Division has maintained its strict underwriting discipline through targeted portfolio reviews.

II. Insurance profit
The Business Division reported an insurance profit of $100 million, a similar result compared to the corresponding half year ($102 million). This equates to an insurance margin of 8.4% (31 December 2014-6.6%).

The higher reported margin reflects the net effect of:

- the quota share-related uplift;
- lower net natural peril claim costs;
- a slight increase in prior period reserve releases; and
- an adverse credit spread movement of $23 million.

The Business Division produced an underlying margin of 10.7%, a similar result compared to the corresponding half year. The favourable quota share effect, and further synergies from the integration of the former Wesfarmers business and the revised operating model in Australia, were offset by the effect of tough commercial market conditions.

III. Fee based business
The Business Division generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes that are underwritten by the respective state governments. In the current half year, net income from fee based operations was $11 million, compared to $9 million in the corresponding half year period.

C. NEW ZEALAND
New Zealand represented 19% of Group GWP. The 4.1% contraction in GWP reflected soft commercial market conditions partially offset by a robust personal lines performance. Operating performance remained strong with an underlying margin of 18.4%. The integration of the Lumley Insurance business was successfully completed.

I. Premiums
New Zealand's current half year GWP of NZ$1,174 million (31 December 2014-NZ$1,223 million) decreased by 4.0%. The reduction is the result of softening premium rates and increased competition in the intermediated commercial lines market, where a maintenance of underwriting discipline has seen some volume loss as the industry returns to pre-earthquake conditions; partially offset by modest GWP growth in the private motor vehicle portfolio from a mixture of volume and rate increases.

Reported GWP decreased by 4.1% to $1,070 million, inclusive of a marginally negative foreign exchange translation effect compared to the corresponding half year.

II. Insurance profit
The New Zealand business produced an insurance profit of $11 million in the half year ended 31 December 2015 compared to $193 million in the corresponding half year. This equated to a reported insurance margin of 1.4% (31 December 2014-19.2%).

The significantly lower reported insurance margin in the current half year reflects the combination of:

- a NZ$150 million increase to risk margin for the February 2011 earthquake event;
- a quota share-related uplift;
- increased pressure on the profitability of intermediated commercial lines in a soft market environment;
- relatively benign natural peril activity;
- continued focus on pricing and underwriting discipline; and
- the realisation of integration benefits from the Lumley acquisition.

The New Zealand business continues to deliver a strong underlying margin, as it balances customer affordability with high regulatory and reinsurance costs in a highly competitive market.

III. Canterbury Rebuild

At 31 December 2015 the New Zealand business had completed over NZ$5.3 billion in claim settlements in respect of the Canterbury earthquakes (approximately NZ$4.5 billion as at 30 June 2015). Approximately 85% (78% as at 30 June 2015) of all claims by number had been fully settled at that date. Finalisation of commercial claims has continued to advance in line with expectations, with over 94% settled by 31 December 2015 (91% as at 30 June 2015). Residential claims also continue to make steady progress, with over 83% settled by the end of the current half year (75% as at 30 June 2015). The majority of outstanding residential properties were in construction by December 2015, with the rebuild expected to be largely complete by the middle of calendar 2016. Certain shared properties, over cap claims from the Earthquake Commission (EQC) and claims subject to dispute or litigation may take longer to settle.

IAG has already exceeded its NZ$4 billion reinsurance limit on the February 2011 event and has acted to reduce associated uncertainty via an adverse development cover (ADC) which provides NZ$600 million of protection in excess of NZ$4.4 billion. Inclusive of risk margin, the February 2011 event is now covered to the extent of NZ$5 billion.

While IAG believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events, including the rebuild process, there remains a degree of uncertainty as to the ultimate cost. That uncertainty attaches to:

- the further notification of household claims that have exceeded the EQC’s NZ$100,000 residential dwelling limit;
- increased risk on flood and liquefaction vulnerability; and
- higher repair and rebuild costs.

D. ASIA

Asia represents an important source of long term growth for IAG. This is being pursued through five targeted markets in the region: Thailand, Malaysia, India, Vietnam and Indonesia. IAG has established a presence in each of these countries. IAG has determined not to pursue further investment in China. The interest held in Bohai Property Insurance Company Ltd (Bohai) has been diluted to 16.9% following IAG’s non-participation in a capital raising in December 2015. As a result of this the investment in Bohai has been transferred to IAG’s shareholders’ funds investment portfolio in the current half year.

I. Divisional result

The division contributed a total profit of $10 million in the current half year, including shares of associates and allocated costs. This compares to a $17 million profit in the corresponding half year, and comprises:

- sound underlying performances by the established businesses in Thailand and Malaysia;
- a modest combined loss from the developing businesses in India, Vietnam and Indonesia;
- an unfavourable movement in mark-to-market valuations of investments, including those within associates’ shareholders’ funds; and
- steady regional support and development costs of $15 million (31 December 2014-$14 million).

II. Controlled entities

GWP from the Group's controlled entities was $197 million in the current half year, which was an increase of over 20% on the corresponding half year (31 December 2014-$164 million). The increase was driven by the Thai business (Safety Insurance) which reported an increase in GWP of 18.7% to $184 million.

The insurance profit delivered by the controlled entities for the current half year was $10 million (31 December 2014-$12 million) excluding allocated costs, and incorporated:

- Safety Insurance reporting an insurance profit of $10 million, compared to $11 million in the corresponding half year.
- AAA Assurance contributing an insurance loss of $1 million (31 December 2014-profit of $1 million); and
- PT Asuransi Parolamas (Parolamas), an Indonesian general insurance company acquired in April 2015 contributing an insurance profit of $1 million.

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

The Group's share of associates was a profit of $15 million (31 December 2014-$19 million), excluding allocated costs. This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia and SBI General Insurance Company Limited (SBI General) in India. AmGeneral accounted for the majority of the Group's share of net profit from associates. IAG’s share of AmGeneral's profit for the half year decreased by 11% to $17 million (31 December 2014-$19 million).

E. CORPORATE AND OTHER

Revenue decreased from $147 million in the corresponding half year to $64 million in the current half year. A pre-tax loss of $56 million was reported, which compares to a loss of $4 million in the corresponding half year, predominantly due to lower investment income on shareholders’ funds net of investment fees.

Further details on the operating segments are set out in the segment reporting note within the Financial Statements.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 31 December 2015 were $30,263 million compared to $31,402 million at 30 June 2015. Movements within the overall decrease of $1,139 million include:

- a decrease in investments and operating cash of $1,571 million, primarily due to net settlements on the Berkshire Hathaway quota share, payment of New Zealand earthquake claims, and payment of the 2015 final dividend. This was partially offset by investment returns; and
- an increase in reinsurance and other recoveries receivable on outstanding claims of $585 million, predominantly due to recoveries from Berkshire Hathaway.

The total liabilities of the Group as at 31 December 2015 were $23,114 million compared to $24,384 million at 30 June 2015. The decrease in liabilities of $1,270 million is mainly attributable to:

- a decrease in outstanding claims liability of $546 million predominantly due to New Zealand earthquake claims settlement and prior year CTP releases. This was partially offset by New Zealand reserve strengthening; and
- a decrease in reinsurance premium payable of $422 million primarily as a result of the Berkshire Hathaway quota share agreement.

IAG shareholders' equity (excluding non controlling interests) increased from $6,817 million at 30 June 2015 to $6,930 million at 31 December 2015, reflecting the combined effect of:

- a sound operating earnings performance in the current half year, resulting in a net profit attributable to shareholders of $466 million; and
- payment of the final dividend of $389 million declared in respect of the 2015 financial year.

B. CASH FROM OPERATIONS

The net cash outflows from operating activities for the half year ended 31 December 2015 were $1,082 million compared to net cash inflows of $290 million for the corresponding half year. The movement is mainly attributable to the net effect of:

- an increase in outwards reinsurance premium expense paid of $1,122 million which predominantly relates to the Berkshire Hathaway quota share;
- an increase in claims costs paid of $855 million, mainly attributable to the payment of New Zealand earthquake claims and the settlement of the higher than normal natural peril claims that occurred in the 2015 financial year; partially offset by
- an increase in reinsurance and other recoveries received of $275 million, predominantly attributable to reinsurance settlements on the New Zealand earthquake claims and Berkshire Hathaway quota share.

C. INVESTMENTS

The Group's investments totalled $14 billion as at 31 December 2015, excluding investments held in joint ventures and associates, with nearly 70% represented by the technical reserves portfolio. Total investments at 30 June 2015 were $15.5 billion. Movements of note since 30 June 2015 are:

- reduced technical reserves as the 20% Berkshire Hathaway quota share serves to progressively reduce related insurance liabilities;
- increased funds reflecting the sound operating performance of the Group during the period; and
- a significant dividend payment in October 2015 ($389 million).

As at 31 December 2015, the Group's overall investment allocation remained conservatively positioned and the credit quality of the investment book was strong, with 80% (30 June 2015-81%) of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Technical reserves as at 31 December 2015 accounted for $9.7 billion (30 June 2015-$11 billion) of the Group's investments, and were entirely invested in fixed interest and cash.

The Group's allocation to growth assets was 47% of shareholders' funds at 31 December 2015 (30 June 2015-41%). Included within the Group's allocation to growth assets are Australian and international equities and alternative investments.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at $1,781 million at 31 December 2015, compared to $1,762 million at 30 June 2015. There have been no changes in composition over the period, with the increase attributable to foreign exchange movements.

E. CAPITAL MIX

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

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

At 31 December 2015, the Group's capital mix was in the lower half of the targeted range, with debt and hybrids representing 33.4% (30 June 2015-33.8%) of total tangible capitalisation.

F. CAPITAL MANAGEMENT
The Group remains strongly capitalised under APRA's Prudential Standards and has set the following related targeted benchmarks:

- a total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of 1.0 times; and
- a Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

At 31 December 2015, the Group had regulatory capital of $4,954 million (30 June 2015 $4,785 million), a PCA multiple of 1.80 (30 June 2015-1.70) and a CET1 multiple of 1.23 (30 June 2015-1.14).

OUR STRATEGY
Our overarching strategy is to create a company that is:

- customer led, and data driven;
- simpler and scalable; and
- agile and quick to respond.

We will do this by focusing on three growth levers in Australia and New Zealand:

- delivering world-leading customer experiences;
- corporate partnering; and
- customer-led digital ecosystems.

and by pursuing selective growth opportunities in Asia within our target markets:

- dial-up opportunities to existing ownership;
- in-market consolidation, when it is available; and
- digital opportunities.

We have also identified simplicity, scalability and agility as levers to drive profitability.

BUSINESS RISK AND RISK MANAGEMENT
Managing risk is central to the sustainability of IAG's business and delivery of value to shareholders. IAG's risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The Risk Management Strategy (RMS) is reviewed annually or as required by the Risk Committee (RC) before being recommended for adoption by the Board. IAG's risk and governance function provides regular reports to the RC on the operation of IAG's risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. IAG's Internal Audit Function provides reports to the Audit Committee (AC) on significant audit findings and other audit related matters. Roles and responsibilities of the Board and its standing committees, the AC, the RC and the People and Remuneration Committee (PARC), are available on the IAG website.

The Group is exposed to multiple risks relating to the conduct of its general insurance business. The risks noted below are not meant to represent an exhaustive list, but those faced by the Group that have been identified by the RMS process are:

- strategic risk: the risk of not achieving corporate or strategic goals;
- insurance risk: the risk that the Group is exposed to financial loss, which may impact the Group's ability to meet its liabilities;
- reinsurance risk: the risk of insufficient reinsurance coverage and/or inadequate reinsurance recovery management;
- financial risks:
  - market risk: the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments;
  - credit risk: the risk of loss from a counterparty failing to meet their financial obligations;
  - liquidity risk: the risk of there being insufficient cash resources to meet payment obligations as and when they fall due; and
  - capital management risk: the risk of failure to maintain adequate regulatory capital to meet the prudentially required capital levels or the Group's internal capital target; and
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

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

Further risk management details are set out in the risk management note in the 30 June 2015 Annual Report.

OUTLOOK
It remains IAG's expectation that GWP for the year ended 30 June 2016 will be relatively flat, following the modest contraction experienced in the first half. The Group's reported margin guidance remains at 14-16% for the year ending 30 June 2016, but is now expected to be at the lower end of this range. This guidance excludes the second half impact of the reinsurance transaction addressing IAG's major run-off portfolios (refer to events subsequent to reporting date note) which is expected to result in a small net loss before tax.

Underlying assumptions behind this 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.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company and the dividend policy employed by the Group are set out in Note 5 within the Financial Statements.

Cash earnings are used for the purposes of targeted ROE and dividend payout policy and are defined as:

- net profit after tax attributable to IAG shareholders;
- plus amortisation and impairment of acquired identifiable intangibles (post tax); and
- excluding any unusual items (non-recurring in nature) after tax.

CASH EARNINGS	**31 December 2015 $m**	31 December 2014 $m
Net profit after tax	**466**	579
Intangible amortisation and impairment	**28**	43
	494	622
Unusual items:		
Corporate expenses	**14**	44
Tax effect on corporate expenses	**(4)**	(13)
Cash earnings[(a)]	**504**	653
Interim dividend	**316**	304
Cash payout ratio[(a)]	**62.7%**	46.6%

(a) Cash earnings and cash payout ratio represent non-IFRS financial information.

IAG has revised its full year dividend payout policy to pay dividends equivalent to approximately 60–80% (31 December 2014 - 50-70%) of reported full year cash earnings in any given financial year.

In recognition of the Group's strong capital position, the Board has determined to pay a fully franked interim dividend of 13.0 cents per ordinary share (31 December 2014-13.0 cps) and a fully franked special dividend of 10.0 cents per ordinary share. Both dividends are payable on 30 March 2016 to shareholders registered as at 5pm on 2 March 2016.

The Company's Dividend Reinvestment Plan (DRP) will operate for the interim and special dividends by acquiring shares on-market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the Company's DRP is 3 March 2016. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- On 16 November 2015, the Board appointed Peter Harmer as Managing Director and CEO. Mr Harmer replaced Mike Wilkins who retired as Managing Director and CEO, but will remain in an executive capacity until 31 March 2016.
- New structure and leadership team:
  - Effective 9 December 2015, a new organisational structure and leadership team was announced, to drive the Group's future profitability and growth. Roles and responsibilities of the new leadership team are available on the IAG website.
  - In the Australian market IAG has two customer facing divisions responsible for sales, service, and brand and marketing execution. The Consumer Division focuses on individuals and families, and the Business Division focuses on businesses of all sizes.
  - IAG continues to report its financial results using its four profit segments: Consumer Division, Business Division, New Zealand and Asia.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the half year are set out below and in the events subsequent to reporting date note within the Financial Statements. These include:

- On 16 February 2016, the Board appointed Ms Elizabeth Bryan AM as its Chairman, effective 31 March 2016. Ms Bryan will succeed Mr Brian Schwartz AM, who announced his intention to retire from the Board at the Company's annual general meeting in October 2015;
- On 17 February 2016, the Board determined to pay an interim dividend of 13 cents per ordinary share and a special dividend of 10 cents per ordinary share, 100% franked. The dividends will be paid on 30 March 2016. The dividend reinvestment plan will operate by acquiring shares on-market for participants, with no discount applied; and
- In February 2016, IAG completed an innovative reinsurance transaction with Berkshire Hathaway that mitigates the Group's exposure to the Canterbury earthquakes and asbestos related liabilities. The transaction comprises:
  - An ADC which provides NZ$600 million of protection above NZ$4.4 billion for the February 2011 Canterbury earthquake event; and
  - A loss portfolio transfer reinsurance arrangement and ADC in respect of IAG's asbestos portfolio.

  IAG's asbestos exposure mainly relates to liability and workers' compensation risks written by CGU in the 1970s and the 1980s. This cover does not affect the management of these portfolios, with IAG continuing to assess, manage and pay claims.

  The transaction will result in a substantial release of reserves from the asbestos book, and the payment of a similar-sized combined premium. The overall expected effect is a small net loss before tax, which will be recognised in the second half of the financial year.

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

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the half year ended 31 December 2015.

Signed at Sydney this 17th day of February 2016 in accordance with a resolution of the Directors.

Peter Harmer
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2015 there have been:

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

KPMG

KPMG

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Partner

Sydney
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STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	CONSOLIDATED	
	31 December 2015	31 December 2014
	$m	$m
Premium revenue	**5,734**	5,805
Outwards reinsurance premium expense	**(1,632)**	(651)
Net premium revenue (i)	**4,102**	5,154
Claims expense	**(4,366)**	(4,914)
Reinsurance and other recoveries revenue	**1,777**	1,433
Net claims expense (ii)	**(2,589)**	(3,481)
Acquisition costs	**(898)**	(874)
Reinsurance commission revenue	**373**	25
Net acquisition costs	**(525)**	(849)
Other underwriting expenses	**(444)**	(447)
Fire services levies	**(108)**	(111)
Underwriting expenses (iii)	**(1,077)**	(1,407)
Underwriting profit/(loss) (i) + (ii) + (iii)	**436**	266
Investment income on assets backing insurance liabilities	**185**	438
Investment expenses on assets backing insurance liabilities	**(11)**	(11)
Insurance profit/(loss)	**610**	693
Investment income on shareholders' funds	**52**	142
Fee and other income	**107**	98
Share of net profit/(loss) of associates	**7**	4
Finance costs	**(51)**	(52)
Fee based, corporate and other expenses	**(149)**	(172)
Net income/(loss) attributable to non-controlling interests in unitholders' funds	**(3)**	(3)
Profit/(loss) before income tax	**573**	710
Income tax (expense)/credit	**(67)**	(68)
Profit/(loss) for the period	**506**	642
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit plans	**(16)**	(14)
Income tax on items that will not be reclassified to profit or loss	**4**	4
	(12)	(10)
Items that may be reclassified subsequently to profit or loss:		
Net movement in foreign currency translation reserve	**22**	54
Income tax on items that may be reclassified to profit or loss	**11**	19
	33	73
Other comprehensive income and (expense), net of tax	**21**	63
Total comprehensive income and (expense) for the period, net of tax	**527**	705
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO		
Shareholders of the Parent	**466**	579
Non-controlling interests	**40**	63
Profit/(loss) for the period	**506**	642
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE PERIOD ATTRIBUTABLE TO		
Shareholders of the Parent	**487**	642
Non-controlling interests	**40**	63
Total comprehensive income and (expense) for the period, net of tax	**527**	705

	NOTE	2015	2014
		cents	cents
EARNINGS PER SHARE			
Basic earnings per ordinary share	4	**19.25**	24.87
Diluted earnings per ordinary share	4	**18.64**	24.08

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

BALANCE SHEET

AS AT 31 DECEMBER 2015

	NOTE	CONSOLIDATED	
		31 December 2015	30 June 2015
		$m	$m
ASSETS			
Cash held for operational purposes		**310**	306
Investments	6	**13,960**	15,535
Premium receivable		**3,058**	3,251
Trade and other receivables		**636**	653
Current tax assets		**30**	-
Reinsurance and other recoveries on outstanding claims		**4,298**	3,713
Deferred levies and charges		**121**	116
Deferred outwards reinsurance expense		**1,856**	1,823
Deferred acquisition costs		**996**	1,015
Deferred tax assets		**549**	499
Property and equipment		**214**	235
Other assets		**190**	134
Investment in joint venture and associates	10	**455**	561
Intangible assets		**658**	671
Goodwill		**2,932**	2,890
Total assets		**30,263**	31,402
LIABILITIES			
Trade and other payables		**1,233**	1,321
Reinsurance premium payable		**1,018**	1,440
Restructuring provision		**30**	59
Current tax liabilities		**11**	109
Unearned premium liability		**6,027**	6,156
Outstanding claims liability		**12,141**	12,687
Non-controlling interests in unitholders' funds		**250**	198
Employee benefits provision		**277**	324
Other liabilities		**346**	328
Interest bearing liabilities	7	**1,781**	1,762
Total liabilities		**23,114**	24,384
Net assets		**7,149**	7,018
EQUITY			
Share capital	8	**7,275**	7,275
Treasury shares held in trust		**(44)**	(83)
Reserves		**(18)**	(38)
Retained earnings		**(283)**	(337)
Parent interest		**6,930**	6,817
Non-controlling interests		**219**	201
Total equity		**7,149**	7,018

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED	SHARE CAPITAL	TREASURY SHARES HELD IN TRUST	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE BASED REMUN-ERATION RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	$m	$m	$m	$m	$m	$m	$m
31 December 2015							
Balance at the beginning of the financial period	**7,275**	**(83)**	**(68)**	**30**	**(337)**	**201**	**7,018**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**466**	**40**	**506**
Other comprehensive income and (expense)	**-**	**-**	**33**	**-**	**(12)**	**-**	**21**
Total comprehensive income/(expense) for the period	**-**	**-**	**33**	**-**	**454**	**40**	**527**
Transactions with owners in their capacity as owners							
Share based payment expense recognised	**-**	**-**	**-**	**14**	**-**	**-**	**14**
Share based remuneration vested	**-**	**39**	**-**	**(27)**	**(12)**	**-**	**-**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(389)**	**(22)**	**(411)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Balance at the end of the financial period	**7,275**	**(44)**	**(35)**	**17**	**(283)**	**219**	**7,149**
31 December 2014							
Balance at the beginning of the financial period	6,775	(94)	10	28	(151)	226	6,794
Profit/(loss) for the period	-	-	-	-	579	63	642
Other comprehensive income and (expense)	-	-	73	-	(10)	-	63
Total comprehensive income/(expense) for the period	-	-	73	-	569	63	705
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	-	(35)	-	-	-	-	(35)
Share based payment expense recognised	-	-	-	14	-	-	14
Share based remuneration vested	-	44	-	(24)	(20)	-	-
Dividends determined and paid	-	-	-	-	(609)	(65)	(674)
Dividends received on treasury shares held in trust	-	-	-	-	3	-	3
Balance at the end of the financial period	6,775	(85)	83	18	(208)	224	6,807

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

CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	CONSOLIDATED	
	31 December 2015	31 December 2014
	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium received	**5,736**	5,804
Reinsurance and other recoveries received	**1,110**	835
Claims costs paid	**(4,921)**	(4,066)
Outwards reinsurance premium expense paid	**(1,819)**	(697)
Dividends received	**23**	27
Interest and trust distributions received	**267**	291
Finance costs paid	**(57)**	(57)
Income taxes refunded	**9**	2
Income taxes paid	**(203)**	(270)
Other operating receipts	**1,039**	698
Other operating payments	**(2,266)**	(2,277)
Net cash flows from operating activities	**(1,082)**	290
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows on acquisition/capital injection to subsidiaries and associates	**-**	(160)
Proceeds from disposal of subsidiaries	**25**	-
Proceeds from disposal of investments and property and equipment	**7,028**	7,691
Outlays for investments and property and equipment acquired	**(5,551)**	(8,587)
Net cash flows from investing activities	**1,502**	(1,056)
CASH FLOWS FROM FINANCING ACTIVITIES		
Outlays for purchase of treasury shares	**-**	(35)
Proceeds from issue of trust units	**161**	67
Outlays for redemption of trust units	**(111)**	(54)
Dividends paid to IAG shareholders	**(389)**	(609)
Dividends paid to non-controlling interests	**(22)**	(65)
Dividends received on treasury shares	**1**	3
Net cash flows from financing activities	**(360)**	(693)
Net movement in cash held	**60**	(1,459)
Effects of exchange rate changes on balances of cash held in foreign currencies	**4**	22
Cash and cash equivalents at the beginning of the financial period	**1,433**	3,010
Cash and cash equivalents at the end of the financial period*	**1,497**	1,573

* Includes $310 million (31 December 2014-$250 million) of cash held for operational purposes, $1,187 million (31 December 2014-$1,323 million) of cash and short term money held for investments.

The above cash flow statement should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. This financial report is for the half year ended 31 December 2015 and the consolidated financial statements are for the Company and its subsidiaries (Group or Consolidated entity). The Group is a for-profit entity.

This general purpose half year financial report was authorised by the Board of Directors for issue on 17 February 2016.

This report should be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

A. STATEMENT OF COMPLIANCE

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

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board (IASB). IFRS forms the basis of the AASBs.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Consolidated entity and are the same as those applied for the previous reporting year unless otherwise noted. The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions for the Consolidated entity being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is Australian dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

I. Changes in accounting policies

The following new Australian Accounting Standard and Interpretation is applicable for the current reporting period.

TITLE	DESCRIPTION
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

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

II. Rounding

Amounts in this financial report have been rounded to the nearest million dollars, unless otherwise stated. The Company is the kind of company referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

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

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

The estimation process of the gross cash flows for the 2011 financial year natural catastrophe events in New Zealand is conducted in a manner consistent with the preparation of accounts as described in the summary of significant accounting policies note in the 30 June 2015 annual report. This estimate is subject to a high degree of uncertainty owing to the unique nature of the events. The uncertainties include allocation of costs between the various earthquake events (September 2010, February 2011 and June 2011), under the Earthquake Commission (EQC) cap (NZ$100,000) claims which may subsequently exceed the cap, potential latent claims, outcomes of court cases and litigation, the impact of demand surge inflation, the interaction with the EQC and uncertainty relating to IAG's share of claim costs.

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

- other:
  - intangible assets and goodwill impairment testing;
  - acquired intangible assets' initial measurement and determination of useful life;
  - income tax and related assets and liabilities;
  - provisional accounting of business combinations; and
  - share based remuneration.

NOTE 3. SEGMENT REPORTING

The Consolidated entity has general insurance operations in Australia, New Zealand and Asia.

The Consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and in determining allocation of resources. Accordingly, IAG continues to report its financial results using its existing profit segments. Titles of the Australian divisions have been amended to reflect the organisational structure effective from 9 December 2015.

The reportable segments comprise the following business divisions.

A. CONSUMER DIVISION

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

B. BUSINESS DIVISION

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

C. NEW ZEALAND

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

D. ASIA

This segment provides direct and intermediated insurance business underwritten through subsidiaries in Thailand, Vietnam and Indonesia and the share of the operating result from the investment in associates in Malaysia and India. The businesses offer personal and commercial insurance products through local brands.

E. CORPORATE AND OTHER

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

Further details of the reporting segments' principal activities are disclosed in the Directors' Report.

CONSOLIDATED	AUSTRALIA CONSUMER DIVISION $m	AUSTRALIA BUSINESS DIVISION $m	NEW ZEALAND $m	ASIA $m	CORPORATE AND OTHER $m	TOTAL $m
31 December 2015						
External revenue	**4,035**	**2,372**	**1,518**	**246**	**64**	**8,235**
Total revenue	**4,035**	**2,372**	**1,518**	**246**	**64**	**8,235**
Underwriting profit/(loss)	**414**	**25**	**(6)**	**1**	**2**	**436**
Investment income net of investment fees - technical reserves	**81**	**75**	**17**	**2**	**(1)**	**174**
Insurance profit/(loss)	**495**	**100**	**11**	**3**	**1**	**610**
Investment income net of investment fees - shareholders' funds	**-**	**-**	**-**	**-**	**38**	**38**
Share of net profit/(loss) of associates	**-**	**1**	**-**	**7**	**(1)**	**7**
Finance costs	**-**	**-**	**-**	**-**	**(51)**	**(51)**
Other net operating result	**-**	**11**	**1**	**-**	**(43)**	**(31)**
Profit/(loss) before income tax	**495**	**112**	**12**	**10**	**(56)**	**573**
Income tax expense						**(67)**
Profit/(loss) for the period						**506**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**94**	**94**
Depreciation expense	**17**	**8**	**7**	**1**	**-**	**33**
Amortisation and impairment charges on acquired intangibles and goodwill	**11**	**37**	**19**	**-**	**-**	**67**
Total depreciation and amortisation expense	**28**	**45**	**26**	**1**	**-**	**100**
31 December 2014						
External revenue	3,484	2,101	1,955	258	147	7,945
Total revenue	3,484	2,101	1,955	258	147	7,945
Underwriting profit/(loss)	177	(78)	168	1	(2)	266
Investment income net of investment fees - technical reserves	214	180	25	7	1	427
Insurance profit/(loss)	391	102	193	8	(1)	693
Investment income net of investment fees - shareholders' funds	-	-	-	-	137	137
Share of net profit/(loss) of associates	-	-	-	9	(5)	4
Finance costs	-	-	-	-	(52)	(52)
Other net operating result	-	9	2	-	(83)	(72)
Profit/(loss) before income tax	391	111	195	17	(4)	710
Income tax expense						(68)
Profit/(loss) for the period						642
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	95	95
Depreciation expense	19	7	6	1	-	33
Amortisation and impairment charges on acquired intangibles and goodwill	6	34	19	7	-	66
Total depreciation and amortisation expense	25	41	25	8	-	99

NOTE 4. EARNINGS PER SHARE

	CONSOLIDATED 31 December 2015 cents	CONSOLIDATED 31 December 2014 cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share*	**19.25**	24.87
Diluted earnings per ordinary share	**18.64**	24.08

* The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 Earnings Per Share.

	CONSOLIDATED 31 December 2015 $m	CONSOLIDATED 31 December 2014 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the period	**506**	642
Profit attributable to non-controlling interests	**(40)**	(63)
Profit/(loss) attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**466**	579
Earnings used in calculating diluted earnings per share		
Finance costs of convertible securities, net of tax	**12**	13
Profit/(loss) attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**478**	592

	CONSOLIDATED 31 December 2015 Number of shares in millions	CONSOLIDATED 31 December 2014 Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue	**2,431**	2,341
Weighted average number of treasury shares held in trust	**(10)**	(13)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,421**	2,328
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**134**	117
Unvested share based remuneration rights supported by treasury shares held in trust	**10**	13
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**2,565**	2,458

NOTE 5. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
31 December 2015					
2015 final dividend	**16.0**	**389**	**7 October 2015**	**30%**	**100%**
30 June 2015					
2015 interim dividend	13.0	304	1 April 2015	30%	100%
2014 final dividend	26.0	609	8 October 2014	30%	100%
		913			

It is standard practice that the Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy, a dividend is not accrued for until it is determined to be paid and so the dividends for a six-monthly period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

The dividends recognised in the current reporting period include $1 million (31 December 2014-$3 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

A Dividend Reinvestment Plan (DRP) operates which allows shareholders with ordinary shares to elect to receive their dividend entitlement in the form of IAG shares. The price of DRP shares is the volume weighted average share price, less a discount if any (determined by the Directors), calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date.

The DRP for the 2015 final dividend paid on 7 October 2015 was settled with the on-market purchase of approximately 14 million shares priced at $4.9120 per share (based on a daily volume weighted average price for 10 trading days from 14 September 2015 to 25 September 2015 inclusive, with no discount applied).

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

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

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

	CENTS PER SHARE	TOTAL AMOUNT $m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2016 interim dividend	**13.0**	**316**	**30 March 2016**	**30%**	**100%**
2016 special dividend	**10.0**	**243**	**30 March 2016**	**30%**	**100%**

On 17 February 2016, the Board determined an interim and a special dividend will be payable to shareholders on 30 March 2016.

The Company's Dividend Reinvestment Plan (DRP) will operate for both the interim and special dividend by acquiring shares on-market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the Company's DRP is 3 March 2016. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

NOTE 6. INVESTMENTS

DETERMINATION OF FAIR VALUE

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy is determined using the following levels:

I. Level 1 quoted prices

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

II. Level 2 other observable inputs

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

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. Level 3 investments are primarily unlisted private equity funds where the fair value of investments is determined on the basis of published redemption values of those funds received from the relevant managers who themselves use various methods to value the underlying investments. IAG's unlisted equity interest in Bohai Property Insurance Company Limited (Bohai) was transferred in to Level 3 during the period, with no valuation gain or loss recognised on reclassification. The fair value of the investment in Bohai Insurance is determined using a discounted cash flow model.

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

	LEVEL 1 $m	LEVEL 2 $m	LEVEL 3 $m	CONSOLIDATED TOTAL $m
31 December 2015				
Interest bearing investments	**2,451**	**10,087**	**1**	**12,539**
Equity investments	**585**	**346**	**222**	**1,153**
Other investments	**-**	**262**	**2**	**264**
Derivatives	**-**	**4**	**-**	**4**
	3,036	**10,699**	**225**	**13,960**
30 June 2015				
Interest bearing investments	4,056	10,068	1	14,125
Equity investments	636	363	143	1,142
Other investments	-	268	-	268
	4,692	10,699	144	15,535

NOTE 7. INTEREST BEARING LIABILITIES

	CONSOLIDATED			
	31 December 2015		30 June 2015	
	CARRYING VALUE	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
	$m	**$m**	$m	$m
A. COMPOSITION				
I. Capital nature				
a. TIER 1 REGULATORY CAPITAL*				
Convertible preference shares	**377**	**379**	377	383
Reset exchangeable securities	**550**	**551**	550	567
b. TIER 2 REGULATORY CAPITAL				
GBP subordinated term notes	**203**	**204**	205	210
NZD subordinated bonds	**305**	**312**	286	297
AUD subordinated convertible term notes	**350**	**351**	350	358
II. Operating nature				
Other interest-bearing liabilities	**2**	**2**	2	2
Less: capitalised transaction costs	**(6)**		(8)	
	1,781		1,762	

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

B. FAIR VALUE INFORMATION

The interest bearing liabilities are initially measured at fair value (net of transaction costs) but are subsequently measured at amortised cost. Based on market conditions at any point in time, the carrying value of the liabilities may not be representative of the fair value of the liabilities.

The fair value for all interest bearing liabilities is calculated using their quoted market price (fair value hierarchy level 1).

C. SIGNIFICANT MOVEMENTS DURING THE PERIOD

There have been no significant movements or changes to terms and conditions in the interest bearing liabilities since 30 June 2015.

NOTE 8. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	31 December 2015	30 June 2015	**31 December 2015**	30 June 2015
	Number of shares in millions	Number of shares in millions	**$m**	$m
SHARE CAPITAL				
I. Ordinary shares				
Balance at the beginning of the financial period	**2,431**	2,341	**7,275**	6,775
Shares issued under institutional placement, net of transaction costs	**-**	90	**-**	500
Balance at the end of the financial period	**2,431**	2,431	**7,275**	7,275

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

II. For the half year ended 31 December 2015

There were no issues of ordinary shares during the period ended 31 December 2015.

NOTE 9. ACQUISITIONS AND DISPOSALS OF BUSINESSES

A. ACQUISITION OF SUBSIDIARIES

For the half year ended 31 December 2015

ACCIDENT & HEALTH INTERNATIONAL PTY LIMITED (AHI)

On 1 July 2015, the Group acquired the remaining 50% of AHI for a consideration of approximately $25 million. The subsidiary has been consolidated from this date. AHI is an underwriting agency in Australia that has been in operation since 1998 and currently underwrites personal accident, medical and travel insurance.

B. DISPOSAL OF SUBSIDIARIES

For the half year ended 31 December 2015

RUNACRES AND ASSOCIATES LIMITED

During December 2015, the Group disposed of its interest in Runacres and Associates Limited for a consideration of approximately $32 million.

NOTE 10. INVESTMENT IN JOINT VENTURE AND ASSOCIATES

Summarised information of interests in material joint venture and associates accounted for on an equity basis is as follows:

			CONSOLIDATED
	CARRYING VALUE	OWNERSHIP INTEREST	
	31 December 2015	**31 December 2015**	30 June 2015
	$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	**325**	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)	**118**	**26.00**	26.00
Bohai Property Insurance Company Ltd (Bohai Insurance)	**-**	**-**	20.00
Other	**12**		
	455		

Effective 29 December 2015, Bohai ceased to be recognised as an associate following dilution of the Group interest to 16.92% and loss of significant influence. From the effective date, Bohai is recognised as a financial asset (see the Investments note).

NOTE 11. DERIVATIVES

A. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS APPLIED

I. Net investment hedges

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

Each of the hedging relationships has been broadly effective throughout the current period or since inception with the small amount of ineffectiveness recognised in profit or loss.

II. Reporting date positions

The fair values of derivative financial instruments are provided below:

				CONSOLIDATED
	31 December 2015		30 June 2015	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	$m	**$m**	$m	$m
a. NET INVESTMENT HEDGES				
Forward foreign exchange contracts	**8**	**(17)**	97	(4)

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

The fair value of the forward foreign exchange contracts are determined using observable inputs (level 2 in the fair value hierarchy).

I. Reporting date positions

The fair values of derivative financial instruments are provided below:

				CONSOLIDATED
	31 December 2015		30 June 2015	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	$m	**$m**	$m	$m
a. PRESENTED IN INVESTMENTS/TRADE AND OTHER PAYABLES (INVESTMENT RELATED DERIVATIVES)				
Forward foreign exchange contracts	**4**	**-**	-	(10)
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)				
Forward foreign exchange contracts	**42**	**(32)**	11	(101)

NOTE 12. CONTINGENCIES

There have been no material changes in the Group's contingent liabilities or contingent assets since 30 June 2015.

NOTE 13. NET TANGIBLE ASSETS

	CONSOLIDATED	
	31 December 2015	30 June 2015
	$	$
Net tangible assets per ordinary share	**1.37**	1.34

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

NOTE 14. EVENTS SUBSEQUENT TO REPORTING DATE

As the following events occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the current half year ended 31 December 2015. These include:

- On 16 February 2016, the Board appointed Ms Elizabeth Bryan AM as its Chairman, effective 31 March 2016. Ms Bryan will succeed Mr Brian Schwartz AM, who announced his intention to retire from the Board at the Company's annual general meeting in October 2015;
- On 17 February 2016, the Board determined to pay an interim dividend of 13 cents per ordinary share and a special dividend of 10 cents per ordinary share, 100% franked. The dividends will be paid on 30 March 2016. The dividend reinvestment plan will operate by acquiring shares on-market for participants with no discount applied; and
- In February 2016, IAG completed an innovative reinsurance transaction with Berkshire Hathaway that mitigates the Group’s exposure to the Canterbury earthquakes and asbestos related liabilities. The transaction comprises:
  - An adverse development cover (ADC) which provides NZ$600 million of protection above NZ$4.4 billion for the February 2011 Canterbury earthquake event; and
  - A loss portfolio transfer reinsurance arrangement and ADC in respect of IAG’s asbestos portfolio.

  IAG’s asbestos exposure mainly relates to liability and workers’ compensation risks written by CGU in the 1970s and the 1980s. This cover does not affect the management of these portfolios, with IAG continuing to assess, manage and pay claims.

  The transaction will result in a substantial release of reserves from the asbestos book, and the payment of a similar-sized combined premium. The overall expected effect is a small net loss before tax, which will be recognised in the second half of the financial year.

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 14 are in accordance with the Corporations Act 2001 including:
  - giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2015 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 17th day of February 2016 in accordance with a resolution of the Directors.

Peter Harmer
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited (Company), which comprises the consolidated balance sheet as at 31 December 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Consolidated entity comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

DIRECTORS' RESPONSIBILITY FOR THE HALF YEAR FINANCIAL REPORT

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated entity's financial position as at 31 December 2015 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

INDEPENDENCE

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

CONCLUSION

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

- giving a true and fair view of the Consolidated entity's financial position as at 31 December 2015 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
17 February 2016