INVESTOR REPORT HY16.

17 February 2016

Insurance Australia Group Limitied ABN 60 090 739 923

IMPORTANT INFORMATION

This report contains general information in summary form which is current as at 17 February 2016. 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, "1H16" refers to the six months ended 31 December 2015. All references starting with "2H" refer to the six months ended 30 June, being the second half of IAG's financial year. For example, "2H16" refers to the six months ended 30 June 2016. All references starting with "FY" refer to the financial year ended 30 June. For example, "FY16" refers to the year ended 30 June 2016.

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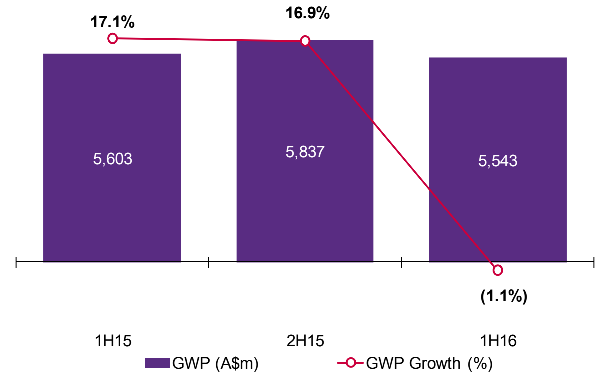
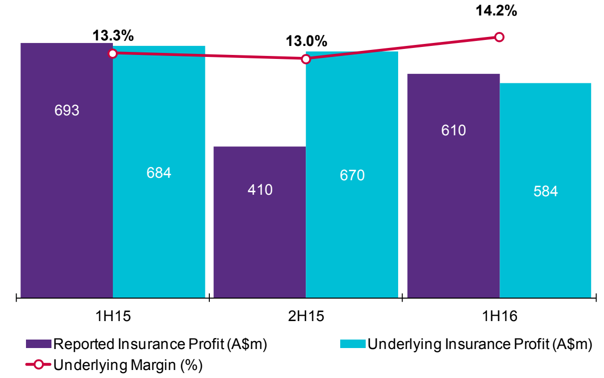
1H16 GROUP RESULTS

KEY RESULTS	1H15 A$m	2H15 A$m	1H16 A$m	1H16 vs 1H15 Mvt
Gross written premium (GWP)	**5,603**	**5,837**	**5,543**	-1.1%
Net earned premium (NEP)	5,154	5,175	4,102	-20.4%
Insurance profit	**693**	**410**	**610**	**-12.0%**
Net profit after tax (NPAT)	579	149	466	-19.5%
Cash NPAT	**653**	**334**	**504**	**-22.8%**
Reported insurance margin	13.4%	7.9%	14.9%	+150bps
Underlying insurance margin	**13.3%**	**13.0%**	**14.2%**	**+90bps**
Cash return on equity (ROE)	19.8%	10.3%	14.7%	-510bps
Dividend (cents per share)	**13.0**	**16.0**	**13.0**	**+0%**
Special dividend (cents per share)	**n/a**	**n/a**	**10.0**	**n/a**
Prescribed Capital Amount (PCA) multiple	1.62	1.70	1.80	+18bps
Common Equity Tier 1 Capital (CET1) multiple	1.04	1.14	1.23	+19bps

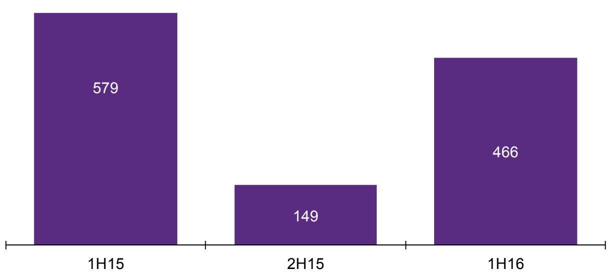
GWP GROWTH



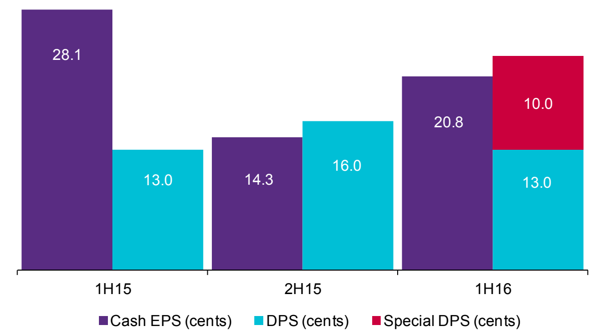
INSURANCE PROFIT & MARGIN



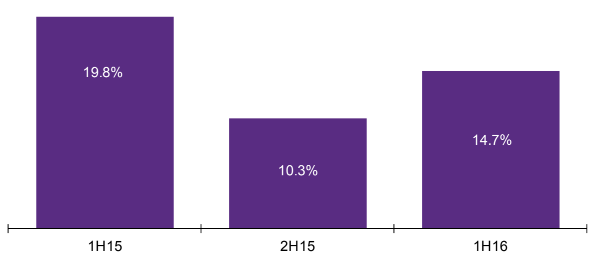
NET PROFIT AFTER TAX (A$M)



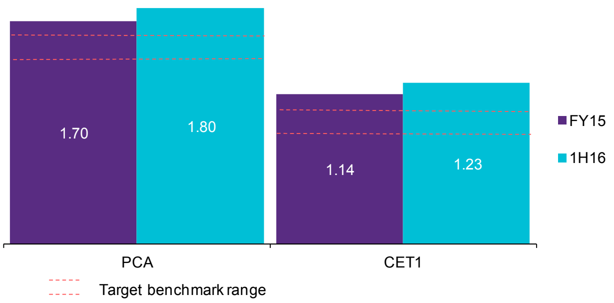
CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Sound performance in challenging operating environment
- Modest decline in GWP – tough commercial market conditions, robust personal lines performance
- 20% quota share arrangement with Berkshire Hathaway commenced 1 July 2015 – favourable underlying margin effect of approximately 250 basis points, reduced regulatory capital requirement
- Underlying margin of 14.2%, reflecting quota share benefit offset by commercial market pressures
- Benefits from Wesfarmers business integration and new Australian operating model on track
- Reported margin of 14.9% includes modest perils benefit against allowance
- Net reserve release of 1.5% – higher than expected CTP releases, offset by increased earthquake risk margin
- Combined earthquake and asbestos reinsurance initiative – February 2011 adverse development cover to NZ$5bn, small net negative earnings impact in 2H16
- Strong capital position above upper end of benchmark target multiples – PCA 1.80, CET1 1.23
- Interim dividend of 13 cents per share (62.7% of cash earnings) – full year payout policy raised to 60-80%
- Special dividend of 10 cents per share
- FY16 relatively flat GWP guidance maintained
- FY16 reported margin now expected to be at lower end of 14-16% guidance range
- New organisational structure to drive future profitability and growth

1H16 OVERVIEW

IAG has produced a sound 1H16 performance, in an environment of challenging operating conditions in its core Australian and New Zealand markets. This has been particularly pronounced in commercial markets, where the cyclical downturn is showing early signs of bottoming.

IAG's personal lines franchises in Australia and New Zealand continue to deliver strong profitability and modest growth in an environment of generally low claims inflation. The respective businesses are successfully responding to the challenges of ever-evolving customer behaviours and needs, providing a full range of customer propositions and a range of digital and new product initiatives.

In contrast, equivalent commercial markets have been under pressure, with surplus capital in global insurance and reinsurance markets placing pressure on average rates and underlying profitability. In such circumstances, IAG's commercial businesses have maintained strict adherence to their underwriting disciplines, resulting in some loss of volume.

Profitability has been cushioned by the realisation of further benefits from the integration of the former Wesfarmers business and the implementation of the new operating model in Australia. This has provided flexibility for increased reinvestment in key business areas which, along with modest cost inflation, has resulted in a relatively flat overall expense outcome in 1H16.

Having realised at least $50m of pre-tax reinsurance synergies in calendar 2015, IAG is on track to meet $180m of pre-tax non-reinsurance benefits from the combination of the Wesfarmers integration and new operating model by the end of FY16, as targeted. 1H16 earnings included an incremental related benefit of approximately $50m, compared to 1H15.

The Asia business is centred on five target markets, following IAG's decision not to pursue further investment in China. While profitability is presently modest, Asia represents an important long term growth option for IAG.

1H16 is the first period to include the 20% quota share arrangement with Berkshire Hathaway. The effect of the quota share has met IAG's expectations, as it lowers overall earnings volatility, reduces regulatory capital requirements and enhances IAG's insurance margin.

IAG has delivered a sound operating performance in challenging market conditions

1. EXECUTIVE SUMMARY

GROSS WRITTEN PREMIUM (GWP)

Slight contraction in GWP – sound growth in personal lines offset by softer commercial lines

The 1.1% reduction in reported 1H16 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 on both sides of the Tasman, 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.

UNDERLYING MARGIN

Underlying profitability remained strong, despite pressure in commercial markets

IAG's underlying profitability remained strong in 1H16. Aside from quota share impacts, the underlying margin of 14.2% (1H15: 13.3%) contained:

- A 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 enabling reinvestment in key aspects of the business, such as digital capabilities, customer service and product design.

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

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

BERKSHIRE HATHAWAY QUOTA SHARE

Favourable underlying margin effect of c.250bps from Berkshire Hathaway quota share

IAG's 1H16 underlying margin also contains a favourable effect of approximately 250bps from the 20% quota share arrangement with Berkshire Hathaway, which commenced on 1 July 2015 for a minimum term of ten years.

The quota share underpins the strategic relationship agreement with Berkshire Hathaway which IAG announced in June 2015. Since its inception, this agreement has:

- Reduced IAG's earnings volatility, via the percentage-based fee that Berkshire Hathaway pays to access IAG's strong core franchise;
- Lowered IAG's regulatory capital requirement through the progressive reduction of its insurance liabilities over a five-year period; and
- Promoted new and complementary business opportunities.

1. EXECUTIVE SUMMARY

REPORTED INSURANCE MARGIN

IAG's 1H16 reported insurance profit of $610m was lower than 1H15 ($693m), while a higher reported insurance margin of 14.9% (1H15: 13.4%) reflected the positive quota share effect, as well as:

- Net natural peril claim costs of $278m, which were $22m lower than the related allowance;
- An adverse credit spread impact of $15m, compared to a favourable effect of $40m in 1H15; and
- Prior period reserve releases of $60m, equivalent to 1.5% of NEP, down from $92m (1.8% of NEP) in 1H15.

The prior period reserve release outcome contains two distinct and largely offsetting elements:

- Higher than expected releases from Australian long tail classes, principally CTP; and
- A NZ$150m increase to risk margin in respect of the February 2011 Canterbury earthquake event.

Reported insurance margin of 14.9% includes modestly positive net perils effect

RUN-OFF PORTFOLIO REINSURANCE PROTECTION

IAG has announced an innovative reinsurance transaction that materially mitigates the Group's exposure to the Canterbury earthquakes and asbestos. This comprises:

- An adverse development cover (ADC) that provides NZ$600m of protection in excess of NZ$4.4bn for the February 2011 Canterbury earthquake event. After inclusion of the ADC and applicable risk margin, the February 2011 event is now covered to the extent of NZ$5bn; and
- An ADC and loss portfolio transfer in respect of liability and workers' compensation risks with exposure to asbestos. These primarily relate to policies written by CGU in the 1970s and 1980s.

The combination of the overall premium paid and the reserves released from the asbestos portfolio is expected to result in a small net loss, which will be recognised in IAG's 2H16 results in the net corporate expense line.

Innovative reinsurance package materially mitigates earthquake and asbestos exposures

NET PROFIT AFTER TAX / ROE

IAG has reported a lower than normal effective tax rate of 11.1% in 1H16. This 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; and
- The resolution of a tax audit relating to IAG's former UK operations.

Net profit after tax of $466m was 19.5% lower than 1H15. This includes a significantly lower contribution from investment income on shareholders' funds, which reflected weaker equity markets in the period.

Reported return on equity (ROE) in 1H16 was 13.6%, and cash ROE was 14.7%, compared to IAG's through-the-cycle target of approximately 15% (1.5 times weighted average cost of capital (WACC)).

1. EXECUTIVE SUMMARY

DIVIDEND

The Board has determined to pay an interim fully franked dividend of 13.0 cents per ordinary share (1H15: 13.0cps), which equates to a cash payout ratio of 62.7%. In addition, recognising its strong capital position, IAG has:

- Increased its dividend payout policy to 60-80% of cash earnings on a full year basis, up from 50-70%, with effect from the current financial year; and
- Announced a special fully franked dividend of 10.0 cents per ordinary share.

Higher payout policy and special 10¢ dividend

DIVISIONAL HIGHLIGHTS

	1H15				1H16			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
DIVISION	A$m	%	%	%	A$m	%	%	%
Consumer Division	2,802	4.3	16.0	14.0	2,848	1.6	24.6	15.5
Business Division	1,514	43.9	6.6	10.7	1,419	(6.3)	8.4	10.7
New Zealand	1,116	26.2	19.2	15.9	1,070	(4.1)	1.4	18.4
Asia	164	6.5	nm	nm	197	20.1	nm	nm
Corporate & Other	7	nm	nm	nm	9	nm	nm	nm
Total Group	**5,603**	**17.1**	**13.4**	**13.3**	**5,543**	**(1.1)**	**14.9**	**14.2**

The Australian **Consumer Division**, which represented 51% of Group GWP, performed well, producing an underlying margin of 15.5%. The business' reported margin, of 24.6%, included reserve releases significantly above long term expectations at over 8% of NEP. The division also enjoyed a favourable natural perils outcome compared to allowance. GWP growth of 1.6% comprised advances in short tail home and motor lines, partially offset by lower CTP volumes.

Mixed divisional outcomes, with commercial lines under pressure

The Australian **Business Division** saw a 6.3% contraction in GWP, with a continuance of tough commercial market conditions pushing average rates lower, and strict adherence to underwriting disciplines contributing to lower volumes. The business maintained a double digit underlying margin, assisted by the quota share effect, with synergies from the Wesfarmers integration partially offsetting pressures from the market environment. Reported margin was lower, at 8.4%, following an adverse perils experience versus allowance.

New Zealand continued to perform well, registering a strong underlying margin of 18.4%, despite growing pressures on the commercial side of its business. The lower reported margin of 1.4% reflects the increased risk margin in respect of the February 2011 earthquake event, partially offset by a relatively benign natural perils experience. The business has maintained its market-leading position, with modest premium growth in direct personal lines more than offset by the tougher market conditions in the commercial segment, combining to produce a 4.1% decline in GWP over the comparable period.

Asia saw GWP growth of over 20%, with sound growth in Thailand amplified by a favourable foreign exchange effect on translation. This half also saw the first full six months' contribution from the small business acquired in Indonesia. Asia's overall earnings contribution was $10m (1H15: $17m), pushed lower by adverse mark-to-market movements on investments. The Asia segment ceased to include China-based Bohai Property Insurance from 1H16, following a dilution of IAG's ownership to below 20%.

1. EXECUTIVE SUMMARY

CAPITAL

The Group's capital position is very strong

IAG's capital position is very strong, at 1.80 times the Prescribed Capital Amount (PCA) at 31 December 2015, which is well above the Group's targeted range of 1.4-1.6. The Common Equity Tier 1 (CET1) ratio stood at 1.23 at 31 December 2015, against a target benchmark of 0.9-1.1.

If allowance is made for payment of the interim and special dividends (which will occur in late March 2016), the PCA multiple at 31 December 2015 would remain above IAG's benchmark range, while the CET1 multiple would exceed the mid-point of the equivalent target range.

IAG intends to manage its capital broadly in line with its benchmark ranges, with allowance for any specific known future capital demands. Future capital management measures will be pursued when appropriate, with all alternative means given consideration.

IAG's debt to total tangible capitalisation ratio at 31 December 2015 was 33.4%, placing it in the lower half of IAG's 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'.

IAG's probability of adequacy for the outstanding claims liability remained at least 90% at 31 December 2015.

ORGANISATIONAL STRUCTURE

New organisational structure to drive future profitability and growth – no change to financial segmental reporting

On 8 December 2015, IAG announced a new organisational structure and leadership team to drive future profitability and growth. The structure supports IAG's desire to become a customer-led and data-driven organisation that can adapt quickly to the rapidly changing environment in which businesses operate.

In its Australian market, IAG has:

- Two customer-facing divisions responsible for sales, service, and brand and marketing execution:
  - **Consumer Division**, focused on individuals and families; and
  - **Business Division**, focused on businesses of all sizes.
- Three divisions focused on the customer experience, technology and operations which support the customer-facing divisions:
  - **Customer Labs**, responsible for the customer experience strategy, driving product innovation through data and insights, brand architecture across IAG, and new business incubations and venturing;
  - **Digital Labs**, providing digital and design innovation, while identifying and harnessing disruptive technology, and accountable for building digital apps and ecosystems, and simplifying existing core platforms; and
  - **Operations**, responsible for claims and operational functions such as procurement and supply chain management.

Asia is focused on growing its established presence in Malaysia, Thailand, India, Indonesia and Vietnam, while **New Zealand** will maintain its market-leading presence in its mature local market.

1. EXECUTIVE SUMMARY

FY16 OUTLOOK

It remains IAG's expectation that GWP in FY16 will be relatively flat, following the modest contraction experienced in 1H16.

IAG also retains its reported margin guidance of 14-16%, but now expects the outcome to fall at the lower end of that range. This excludes the impact of the reinsurance transaction addressing IAG's major run-off portfolios, which is expected to result in a small net loss that will be included in the Group's net corporate expense line in 2H16.

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 GWP and reported margin guidance maintained, but margin outcome at lower end of 14-16% range expected

2. PURPOSE & STRATEGY

OUR PURPOSE

We make your world a safer place

OUR STRATEGY

Leverage our market leadership to deliver great customer experiences and create value for our shareholders, partners, people, customers and community.

GROWTH LEVERS IN AUSTRALIA AND NEW ZEALAND

- World-leading customer experiences
- Corporate partnering
- Customer-led digital ecosystems

GROWTH LEVERS IN ASIA

- Dial-up opportunities
- In-market consolidation
- Digital opportunities

LEVERS TO DRIVE PROFITABILITY

- Simplicity
- Scalability
- Agility

3. GROUP RESULTS

FINANCIAL PERFORMANCE

GROUP RESULTS	1H15 A$m	2H15 A$m	1H16 A$m
Gross written premium	**5,603**	**5,837**	**5,543**
Gross earned premium	5,805	5,720	5,734
Reinsurance expense	(651)	(545)	(1,632)
Net earned premium	**5,154**	**5,175**	**4,102**
Net claims expense	(3,481)	(3,460)	(2,589)
Commission expense	(518)	(516)	(423)
Underwriting expense	(889)	(924)	(654)
Underwriting profit	**266**	**275**	**436**
Investment income on technical reserves	427	135	174
Insurance profit	**693**	**410**	**610**
Net corporate expense	(44)	(111)	(14)
Interest	(52)	(55)	(51)
Profit from fee based business	10	9	10
Share of profit from associates	9	7	8
Investment income on shareholders' funds	137	86	38
Profit before income tax and amortisation	**753**	**346**	**601**
Income tax expense	(68)	(51)	(67)
Profit after income tax (before amortisation)	**685**	**295**	**534**
Non-controlling interests	(63)	(39)	(40)
Profit after income tax and non-controlling interests (before amortisation)	**622**	**256**	**494**
Amortisation and impairment	(43)	(107)	(28)
Profit attributable to IAG shareholders	**579**	**149**	**466**

Insurance Ratios	1H15	2H15	1H16
Loss ratio	67.5%	66.9%	63.1%
Immunised loss ratio	63.7%	67.0%	62.7%
Expense ratio	27.3%	27.9%	26.2%
Commission ratio	10.1%	10.0%	10.3%
Administration ratio	17.2%	17.9%	15.9%
Combined ratio	94.8%	94.8%	89.3%
Immunised combined ratio	91.0%	94.9%	88.9%
Reported insurance margin	13.4%	7.9%	14.9%
Underlying insurance margin	13.3%	13.0%	14.2%

Key Financial Metrics (Total Operations)	1H15	2H15	1H16
Reported ROE (average equity) (% pa)	17.6%	4.6%	13.6%
Cash ROE (average equity) (% pa)	19.8%	10.3%	14.7%
Basic EPS (cents)	24.87	6.38	19.25
Diluted EPS (cents)	24.08	6.51	18.64
Cash EPS (cents)	28.05	14.30	20.81
DPS (cents)	13.00	16.00	13.00
Special DPS (cents)	n/a	n/a	10.00
Probability of adequacy	90%	90%	90%
PCA multiple	1.62	1.70	1.80

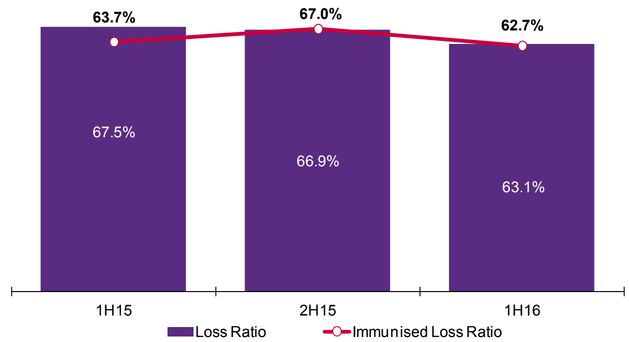
KEY FOREIGN EXCHANGE RATES APPLIED

	Balance Sheet (spot rate)			Income Statement (average rate)	
	1H15	2H15	1H16	1H15	1H16
New Zealand dollar	0.9552	0.8785	0.9370	0.9129	0.9119
Thai baht	0.0373	0.0383	0.0381	0.0347	0.0389
Malaysian ringgit	0.3505	0.3433	0.3196	0.3434	0.3326
Indian rupee	0.0194	0.0204	0.0207	0.0184	0.0212

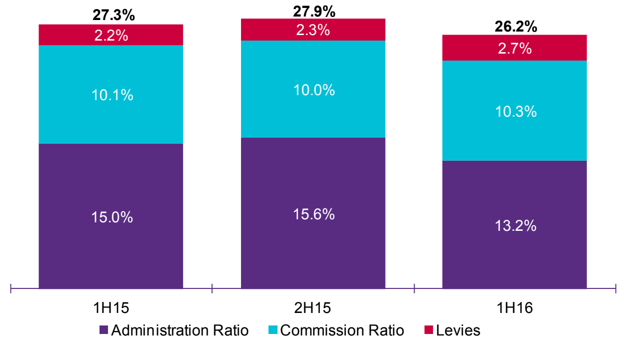
3. GROUP RESULTS

INSURANCE RATIOS

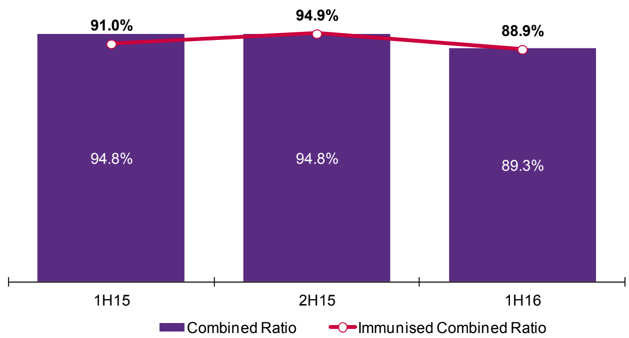
LOSS RATIO



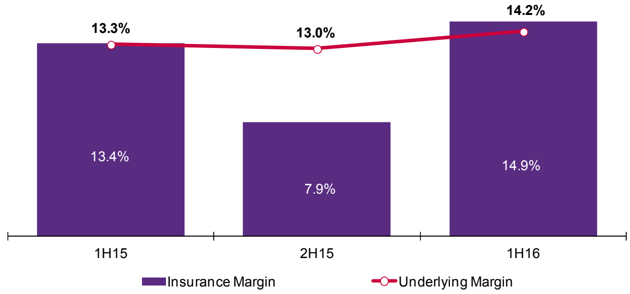
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



PREMIUMS

1H16 GWP amounted to $5,543m, a 1.1% reduction compared to 1H15 ($5,603m). This outcome was characterised by:

- Modest GWP growth in personal lines in both Australia and New Zealand, from a mixture of volume and rate;
- A continuation of tough conditions in the equivalent commercial markets, where lower GWP reflects pressure on rates and some volume loss from the maintenance of underwriting disciplines; and
- A slightly favourable foreign exchange translation effect, notably in respect of Thailand.

1H16 GWP lower by 1.1%: sound personal lines performance offset by tough commercial market conditions

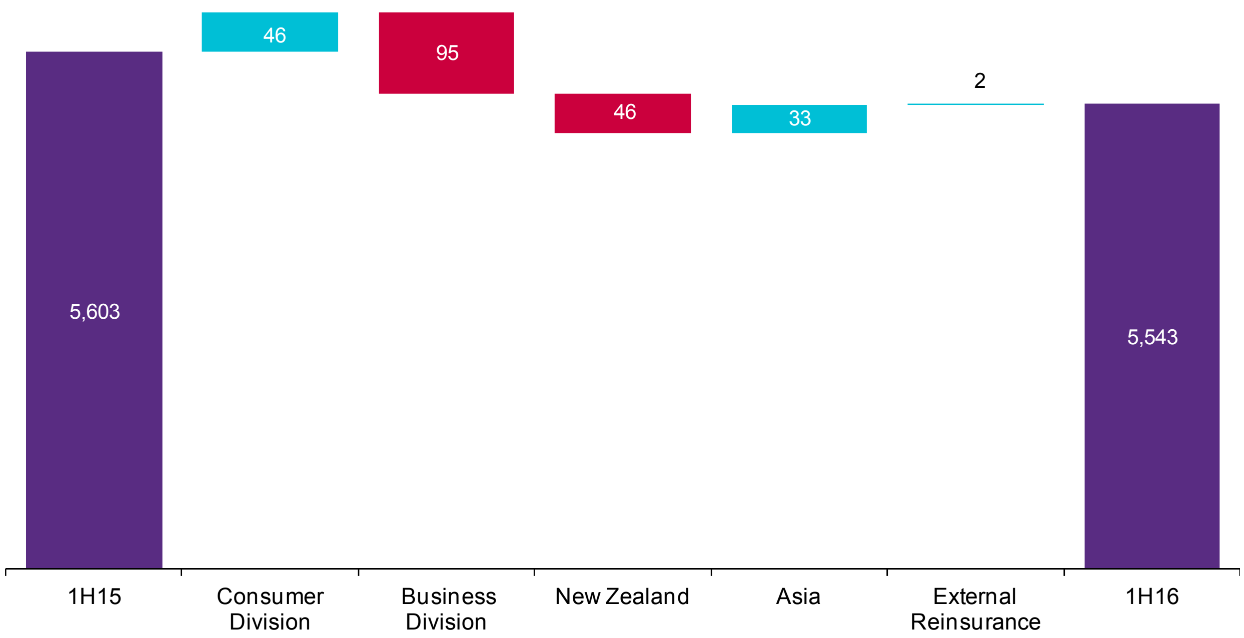
Comparing 1H16 GWP with 1H15 on a divisional basis:

- The Australian **Consumer Division** grew its GWP by 1.6%, to $2,848m. Short tail growth in predominantly motor and home lines amounted to 2.4% and was sourced from a mixture of volume and rate, with retention levels remaining high. This was partially offset by a 2.3% contraction in long tail GWP, reflecting lower shares in the NSW and ACT markets, with deliberate action to reduce exposure to less profitable policies in NSW;
- The Australian **Business Division**'s GWP declined by 6.3%, to $1,419m, directly reflecting soft market conditions in the Australian commercial market. In addition to lower average rates, consistent application of strict underwriting disciplines, alongside weakness in key segments such as workers' compensation and strata, has resulted in slightly lower volumes;
- **New Zealand** GWP reduced by 4.1%, to $1,070m, with market conditions broadly mirroring those in Australia. Modest growth was achieved in personal lines, from a combination of rate and volume. Commercial lines experienced softer rates and increased competition, where maintenance of underwriting discipline resulted in lower volumes; and

3. GROUP RESULTS

- In **Asia**, consolidated GWP rose by over 20%, to $197m, largely reflecting sound growth in Thailand, amplified by a favourable foreign exchange translation effect. On a proportional basis, like-for-like GWP increased by nearly 12%, including continued strong growth in India. IAG participates in a gross regional annualised GWP pool of approximately $1.3bn.

GWP – 1H16 VS. 1H15 (A$M)



BERKSHIRE HATHAWAY QUOTA SHARE

In June 2015 IAG announced it had entered a ten-year whole of account quota share arrangement with Berkshire Hathaway in respect of 20% of its consolidated business. The quota share delivers a more stable income stream on a significant proportion of IAG's business, through the receipt of a percentage-based fee from Berkshire Hathaway and lower exposure to potential volatility in reinsurance rates. It also diversifies IAG's capital funding mix, with an expected $700m reduction in capital requirement over a five-year period.

Berkshire Hathaway quota share increased 1H16 underlying margin by approximately 250bps

The quota share had the following effect on IAG's 1H16 earnings:

- Reinsurance expense: inflated by recognition of the 20% of GWP attributable to Berkshire Hathaway;
- Net claims expense: reduced by 20% for claims attributable to Berkshire Hathaway, while excluding any development of claim reserves existing at 30 June 2015 which was solely to the account of IAG;
- Commission expense: reduced by 20% for commission expense attributable to Berkshire Hathaway;
- Underwriting expense: reduced by 20% for underwriting expense attributable to Berkshire Hathaway, with further reduction from the exchange commission payable by Berkshire Hathaway to IAG in recognition of the value of accessing IAG's strong core franchise; and

3. GROUP RESULTS

- Investment income on technical reserves: a reduction of less than 10%, as related insurance liabilities progressively reflect the impact of the quota share arrangement, with a full 20% decrease evident by years 3-4.

During 1H16, the Berkshire Hathaway quota share arrangement had a neutral impact on IAG's reported insurance profit, but served to increase the underlying insurance margin by approximately 250bps. This outcome is in line with expectations, with a similar effect anticipated for the full year.

The Berkshire Hathaway quota share operates alongside the pre-existing quota share agreement with Munich Re in respect of 30% of IAG's CTP book, which commenced on 1 July 2013.

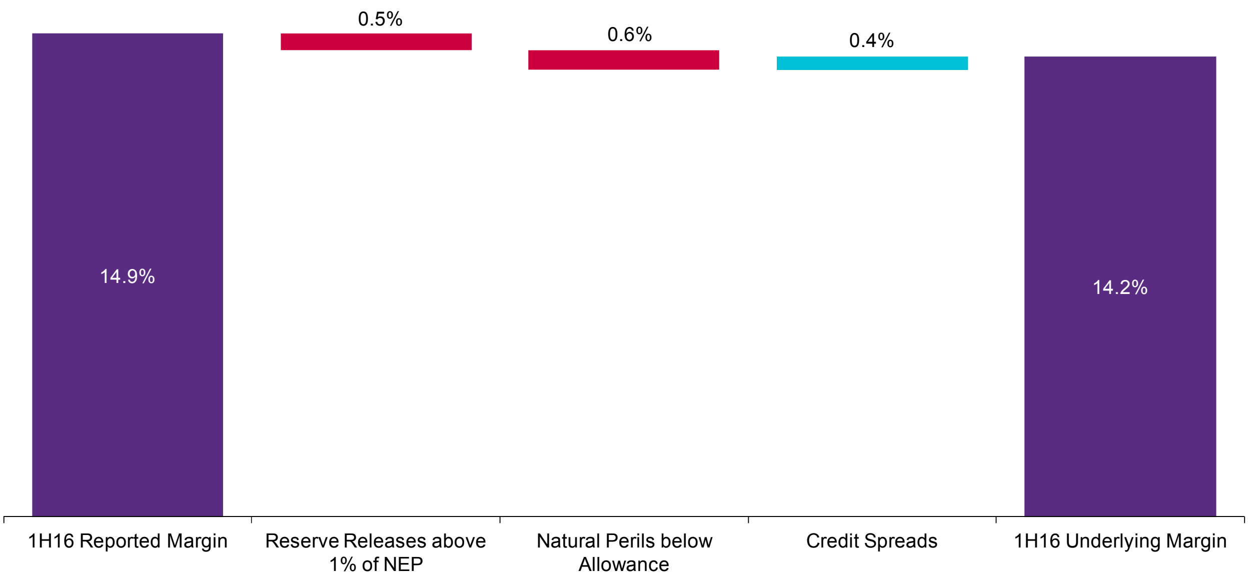
INSURANCE MARGIN

IAG continued to perform strongly at an underlying level, despite the pressures evident from prolonged soft conditions in commercial markets in Australia and New Zealand.

A partially offsetting factor was the realisation of further benefits from the integration of the former Wesfarmers business and the implementation of the new operating model in Australia. IAG remains on track to achieve a $230m pre-tax run rate of savings from these initiatives at the conclusion of FY16, comprising $50m from reinsurance and $180m from other areas.

Underlying performance remains strong, but reflects soft commercial market conditions

GROUP INSURANCE MARGIN – UNDERLYING VS. REPORTED



The 1H16 underlying margin of 14.2% exceeded that of 1H15 (13.3%), owing to the favourable effect of the 20% quota share arrangement with Berkshire Hathaway which commenced on 1 July 2015. This raised the underlying margin by approximately 250bps.

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

The Group's reported 1H16 insurance margin of 14.9% was higher than 1H15 (13.4%), largely owing to the favourable effect of the Berkshire Hathaway quota share arrangement. Other features were:

- A favourable net natural peril claim cost outcome, which was $22m below allowance and in contrast to the greater than $70m overrun in 1H15;
- A $55m adverse movement in credit spread effect, with 1H16 including a negative impact of $15m from the widening of spreads compared to the $40m favourable input from credit spread narrowing in 1H15; and
- A $32m reduction in prior period reserve releases to $60m. This was after inclusion of two largely offsetting factors:
  - Higher than expected reserve releases from Australian long tail classes; and
  - An increase in the risk margin in respect of the February 2011 Canterbury earthquake event.

Reported margin incorporates adverse credit spread movement

All divisional insurance margin outcomes in 1H16 benefited from the impact of the Berkshire Hathaway quota share arrangement, and comprised:

- A strong underlying margin of 15.5% from the Australian **Consumer Division**. A higher reported margin of 24.6% included over 800bps of favourable impact from predominantly long tail reserve releases, well in excess of long term expectations. A secondary influence was the favourable net natural peril claim outcome which fell below allowance by over 200bps;
- A similar underlying margin of 10.7% from the Australian **Business Division**, as tough commercial market conditions negated any quota share effect, despite further realisation of synergies from the integration of the former Wesfarmers business. The division's reported margin of 8.4% included an unfavourable net natural peril claim experience against allowance, but not to the degree encountered in 1H15;
- A continued strong performance from **New Zealand**, with an underlying margin of 18.4%. The division's lower reported margin, of 1.4%, reflected the NZ$150m increase in risk margin applicable to the February 2011 earthquake event. Some offset was obtained from a relatively benign natural peril experience against allowance, of the order of 200bps; and
- A lower insurance profit of $3m from **Asia**, largely reflecting a higher allocation of regional support and development costs to consolidated operations, with the addition of Indonesia. Thailand continued to perform well, while Vietnam and Indonesia are operating close to breakeven.

Favourable quota share effect applicable to all divisional margins

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	92	75	60
Natural perils	(421)	(627)	(278)
Natural peril allowance	350	350	300
Credit spreads	40	(7)	(15)
Reserve releases	1.8%	1.4%	1.5%
Natural perils	(8.2%)	(12.1%)	(6.7%)
Natural peril allowance	6.8%	6.8%	7.3%
Credit spreads	0.8%	(0.1%)	(0.4%)

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 1H16 expense of $1,632m includes $1,255m (1H15: $183m) from quota share-related effects, comprising:

- The quota share agreement with Munich Re for 30% of the combined CTP book, which commenced 1 July 2013; and
- The quota share arrangement with Berkshire Hathaway for 20% of IAG's consolidated business, which commenced 1 July 2015.

The reinsurance expense in 1H15 included a one-off expense from commencement of the CTP adverse development cover, from 1 July 2014.

Excluding the above quota share effects, 1H16's reinsurance expense was less than 7% of reported GWP, down from 8.4% in 1H15. This reflects the net effect of:

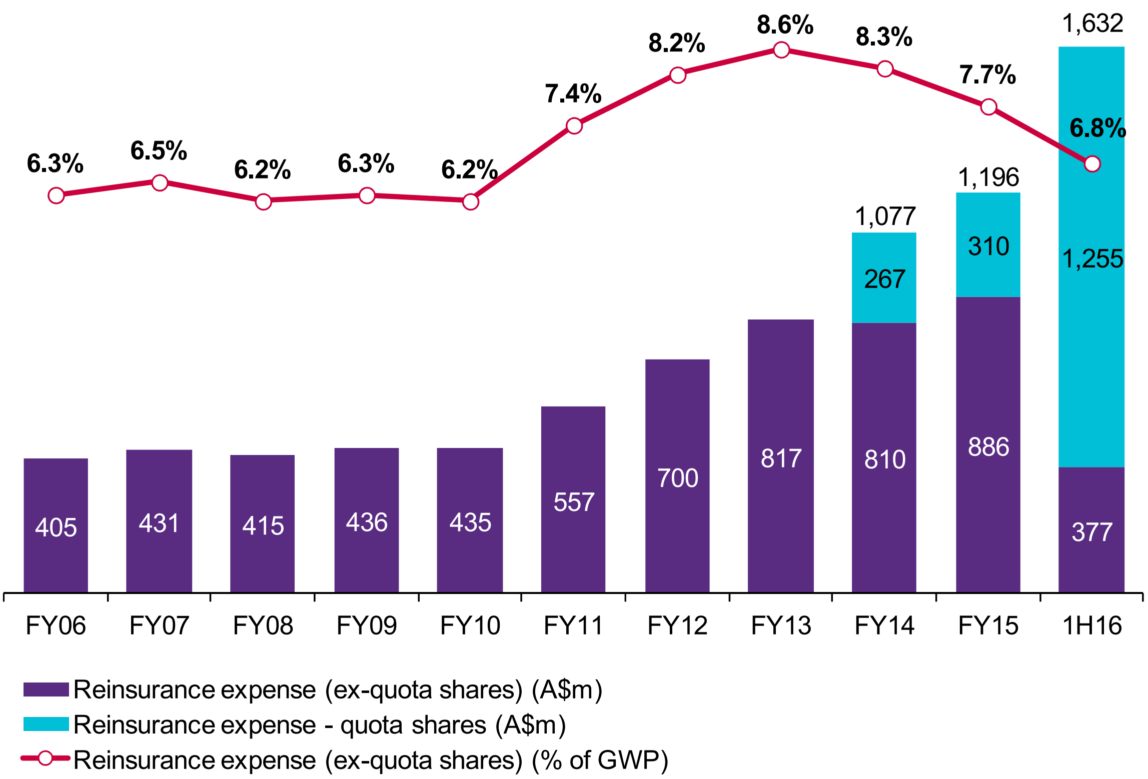
- Lower catastrophe reinsurance costs, stemming from the calendar 2015 renewal; and
- Realisation of synergies from inclusion of the previously standalone programme for the former Wesfarmers business, from 1 January 2015.

IAG has completed its calendar 2016 catastrophe renewal, at which favourable reinsurance market conditions were again encountered. This is expected to result in further reductions to IAG's catastrophe reinsurance expense over the course of 2H16 and 1H17.

Reinsurance expense inflated by quota share effect

Favourable trend in underlying expense, with further reduction (ex-quota share) anticipated in calendar 2016

REINSURANCE EXPENSE



3. GROUP RESULTS

CLAIMS

The 1H16 immunised loss ratio of 62.7% was slightly lower than 1H15 (63.7%), and embraced two offsetting influences:

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

The 1H16 reported loss ratio of 63.1% is markedly lower than 1H15 (67.5%). In addition to reserve release and peril influences, it contains a much-reduced adverse risk free discount rate adjustment of $18m, after inclusion of foreign exchange effects. This compares to an equivalent adverse effect of nearly $200m in the 1H15 claims expense.

Underlying claims performance has been reasonably consistent with prior periods, with average costs generally exhibiting modest inflation. NSW CTP has been a notable exception, where increased frequency and legal representation has had an adverse effect on current year profitability.

Offsetting reserve release and peril trends in slightly lower immunised loss ratio

Reserve Releases

The 1H16 net claims expense includes $60m of prior period reserve releases, equivalent to 1.5% of NEP, down from the 1.8% reported in 1H15. This compares to IAG's FY16 guidance of at least 1% of NEP.

Lower reserve releases, with offsetting CTP and earthquake effects

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	92	75	60
Impact on insurance margin	**1.8%**	**1.4%**	**1.5%**

The prior period reserve release outcome contains two largely offsetting components:

- Higher than expected releases from Australian long tail classes, principally CTP, following further favourable experience against existing underlying assumptions, including claim size, finalisation rates and inflation; and
- A NZ$150m increase to risk margin in respect of the February 2011 Canterbury earthquake event.

IAG had already exceeded its NZ$4bn reinsurance limit on the February 2011 event and has acted to materially reduce associated uncertainty via an ADC which provides NZ$600m of protection in excess of NZ$4.4bn. Inclusive of risk margin, the February 2011 event is now covered to the extent of NZ$5bn.

Effective cover for February 2011 event raised to NZ$5bn, via increased risk margin and ADC

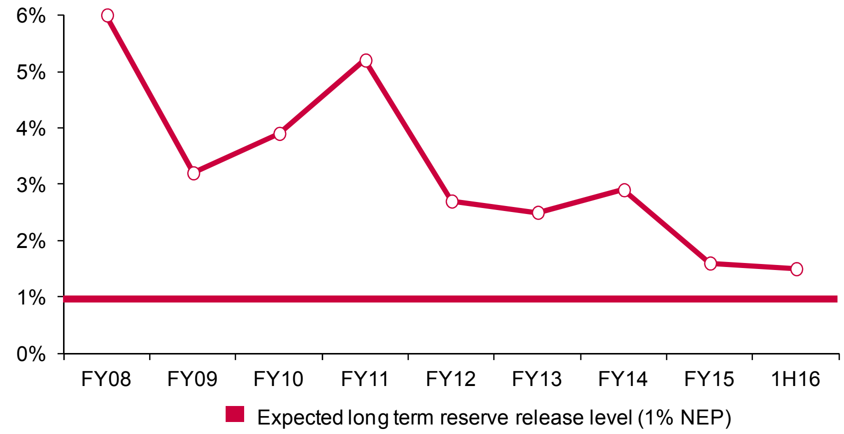
In addition, there has been increased attribution of claim costs to the September 2010 event, where IAG remains well within its reinsurance cover. Gross reserves for this event have increased by NZ$150m.

While IAG 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 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.

3. GROUP RESULTS

RESERVE RELEASES – IMPACT ON INSURANCE MARGIN



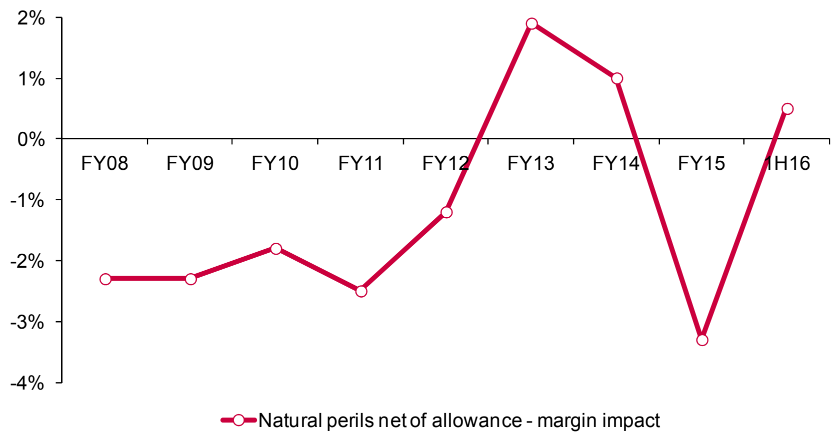
Natural Perils

The 1H16 net claims expense included $278m (1H15: $421m) of losses from natural perils (net of reinsurance), compared to an allowance of $300m. The net effect of natural perils (after allowance) was a favourable impact on the reported insurance margin of 0.6% (1H15: unfavourable impact of 1.4%).

Despite a favourable outcome against allowance, IAG experienced a relatively active period for natural peril events during 1H16. The overall net natural peril claim cost benefited from application of the calendar 2015 catastrophe reinsurance aggregate cover, which provided protection of approximately $130m during the half, on a post-quota share basis.

Net natural peril claim costs $22m below allowance, following significant protection from aggregate reinsurance

NATURAL PERILS – IMPACT ON INSURANCE MARGIN



Nearly 95% of net natural peril claim costs in the period were incurred in Australia. 1H16 also saw a disproportionate skew of these costs to the Business Division, although not to the degree experienced in 1H15. The 1H16 attribution of peril costs reflects the high commercial content of certain events, such as the South Sydney tornado in December.

Comparable peril experience in 1H15 was dominated by the Brisbane storm in late November 2014, which accounted for nearly 40% of total net natural peril claim costs in that half.

It remains IAG's assumption that net natural peril claim costs will amount to $600m in FY16, in line with the full year allowance.

3. GROUP RESULTS

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m
Natural peril claim costs	(421)	(627)	(278)
Natural peril allowance	350	350	300
Impact on insurance profit	**(71)**	**(277)**	**22**
Impact on insurance margin	**(1.4%)**	**(5.3%)**	**0.6%**

At the commencement of the financial year, IAG purchased additional catastrophe reinsurance cover for FY16, which provides $80m of protection in excess of $680m.

1H16 NATURAL PERIL COSTS BY EVENT	A$m
NSW and Adelaide hail storms (September 2015)*	20
Queensland hail storms - Fernvale, Chinchilla & Gayndah (October 2015)*	20
Brisbane hail and Melbourne storms (November 2015)*	20
Queensland and NSW thunderstorms (November 2015)	19
South Australian bushfires - Barossa, Mallala (November 2015)*	20
South Sydney tornado and hail (December 2015)*	20
Victorian bushfires - Ballarat, Great Ocean Road (December 2015)*	20
Other events (<$15m)	139
Total	**278**

** Subject to reinsurance recoveries under the aggregate cover.*

EXPENSES

Relatively flat expenses, ex-quota share effects

Total operating expenses (commission and underwriting) were $1,077m, compared to $1,407m in 1H15. The 23% reduction in reported expenditure is largely explained by the first-time application of the quota share arrangement which sees:

- Berkshire Hathaway assuming 20% of all commission and underwriting expenses; and
- Receipt of an exchange commission from Berkshire Hathaway, which is applied against the underwriting expense line.

On a pre-quota share basis, overall expenses were relatively flat, reflecting the combined effect of:

- Increased reinvestment in the business, spanning projects directed at improved customer service, product design and digital capability;
- The commencement of amortisation of recently completed core system replacement;
- Realisation of further benefits from integration of the former Wesfarmers business and implementation of the revised operating model in Australia; and
- Modest inflation applicable to the existing cost base.

Of the targeted $230m pre-tax run rate of combined synergies and benefits from the integration of the former Wesfarmers business and implementation of the revised operating model in Australia, around $180m relates to non-reinsurance benefits. These benefits attach to both the claims and expense lines.

By the end of 1H16, IAG had reached a non-reinsurance benefit run rate of approximately $100m, and is on track to achieve a $180m run rate by the end of FY16. 1H16 earnings included an incremental related benefit of approximately $50m, compared to 1H15.

3. GROUP RESULTS

Reinsurance synergies stemming from the Wesfarmers integration, of at least $50m, were achieved by early calendar 2015.

The reported expense ratio improved to 26.2% (1H15: 27.3%), aided by inclusion of the exchange commission, and on an ex-levies basis the administration ratio was 13.2% (1H15: 15.0%).

IAG's commission ratio of 10.3% was slightly higher than 1H15 (10.1%), reflecting business mix changes and pressure on commercial rates.

INVESTMENT INCOME ON TECHNICAL RESERVES

Substantially lower unrealised capital gain within technical reserves income

Investment income on technical reserves for 1H16 was $174m, compared to $427m in 1H15. This outcome includes:

- An unrealised capital gain of over $30m, compared with an equivalent gain of nearly $190m in 1H15, excluding foreign exchange effects;
- An overall negative contribution of $15m from the widening of credit spreads (1H15: positive impact of $40m); and
- An adverse foreign exchange impact of $16m (1H15: favourable $10m), 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.

After allowing for the timing of outflows connected to implementation of the Berkshire Hathaway quota share, the average yield was broadly consistent with that recorded in 2H15.

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

Residual restructuring and integration costs recognised

A pre-tax net corporate expense of $14m was recognised in 1H16 (1H15: $44m). This primarily comprises:

- Residual restructuring and integration costs associated with the acquisition of the former Wesfarmers business and the implementation of the new operating model in Australia; offset by
- The profit on sale of the Runacres broking business in New Zealand, which occurred in December 2015.

The combined post-tax impact on reported earnings was approximately $10m.

PROFIT FROM FEE BASED BUSINESS

Fee based business generated a profit of $10m in 1H16, which was similar to 1H15. The majority of this was sourced from the Business Division's role as agent for the NSW and Victorian workers' compensation schemes, where improved profitability reflected the benefit of past restructuring measures.

SHARE OF ASSOCIATES

Share of associates largely derived from Asian interests

The Group's Asian interests represent the vast majority of the share of earnings from associates, and in 1H16 comprised:

- A 49% interest in the Malaysian joint venture, AmGeneral Holdings; and
- A 26% interest in SBI General Insurance Company in India.

The combined contribution from the Asian associates was a profit of $7m, after allocation of $8m of regional support and development costs. The Group's overall share of associates was a profit of $8m (1H15: $9m).

3. GROUP RESULTS

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of $38m, a decrease of over 70% on the profit of $137m in 1H15. This was driven by a much weaker local equity market performance in 1H16, with the broader Australian index (S&P ASX200 Accumulation) delivering a negative return of 0.5%.

At 31 December 2015 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 47% (FY15: 41%).

Lower shareholders' funds income reflects weaker equity markets

TAX EXPENSE

IAG reported a tax expense of $67m in 1H16 (1H15: $68m), representing an effective tax rate (pre-amortisation) of approximately 11.1% (1H15: 9%).

The lower than normal reported tax rate has been driven by two main factors:

- Reinsurance recoveries recognised in the period which relate to the FY11 Canterbury earthquake events in New Zealand, which were recorded by IAG's captive vehicle in a lower tax jurisdiction; and
- Resolution of a tax audit relating to IAG's former UK operations, which were fully disposed of in FY13.

Other contributory elements reconciling the effective tax rate to the prevailing Australian corporate rate of 30% are:

- Differences in tax rates applicable to IAG's foreign operations, principally in New Zealand, Singapore and Malaysia; and
- Franking credits generated from IAG's investment portfolio.

It is IAG's expectation that the effective tax rate will increase to the high 20s in future periods.

Lower than normal tax rate, owing to earthquake and tax audit effects

NON-CONTROLLING INTERESTS

The $40m non-controlling interests in IAG's profit compares to $63m in 1H15. The majority of the non-controlling interests is attributable to RACV's 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT form part of the Consumer Division. The IMA result reflects a higher incidence of net natural peril claim costs, compared to 1H15.

Lower non-controlling interests reflects weaker IMA result

AMORTISATION AND IMPAIRMENT

The 1H16 amortisation charge of $28m compares to $43m reported in 1H15. The lower charge in 1H16 reflects the short amortisable life of certain intangible assets generated by the acquisition of the former Wesfarmers business, which were largely amortised over the course of FY15. A similar amortisation charge is expected in 2H16.

Lower amortisation influenced by short amortisable life applicable to certain Wesfarmers-related intangibles

EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H16 was 19.25 cents per share (cps), compared to 24.87cps in 1H15, a decrease of 22.6%. 1H16 basic EPS was calculated on weighted average capital on issue of approximately 2,421m shares (excluding treasury shares). On a diluted basis, EPS was 18.64cps (1H15: 24.08cps).

3. GROUP RESULTS

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,431.4
Balance at the end of the half year	**2,431.4**
Average weighted shares on issue	2,431.4
Less: Treasury shares held in trust	(9.9)
Average weighted shares on issue (excluding treasury shares)	**2,421.5**

Cash EPS was 20.81cps, compared to 28.05cps in 1H15, a decrease of 25.8%.

Cash EPS of 20.81 cents

CASH EARNINGS	1H16 A$m
Net profit after tax	**466**
Intangible amortisation and impairment	28
Unusual items:	
- Corporate expenses	14
- Tax effect on corporate expenses	(4)
Cash earnings	**504**
Dividend payable	**316**
Cash payout ratio	**62.7%**

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).

DIVIDEND

The Board has determined to pay a fully franked interim dividend of 13.0 cents per ordinary share (1H15: 13.0cps). This equates to a payout ratio of 62.7% of cash earnings for the period. The interim dividend is payable on 30 March 2016 to shareholders registered as at 5pm on 2 March 2016.

Full year dividend policy increased to 60-80% of cash earnings and 10¢ special dividend declared

In recognition of its strong capital position, IAG has:

- Increased its dividend payout policy to 60-80% of cash earnings on a full year basis, up from 50-70%, with effect from FY16; and
- Declared a special fully franked dividend of 10.0 cents per ordinary share.

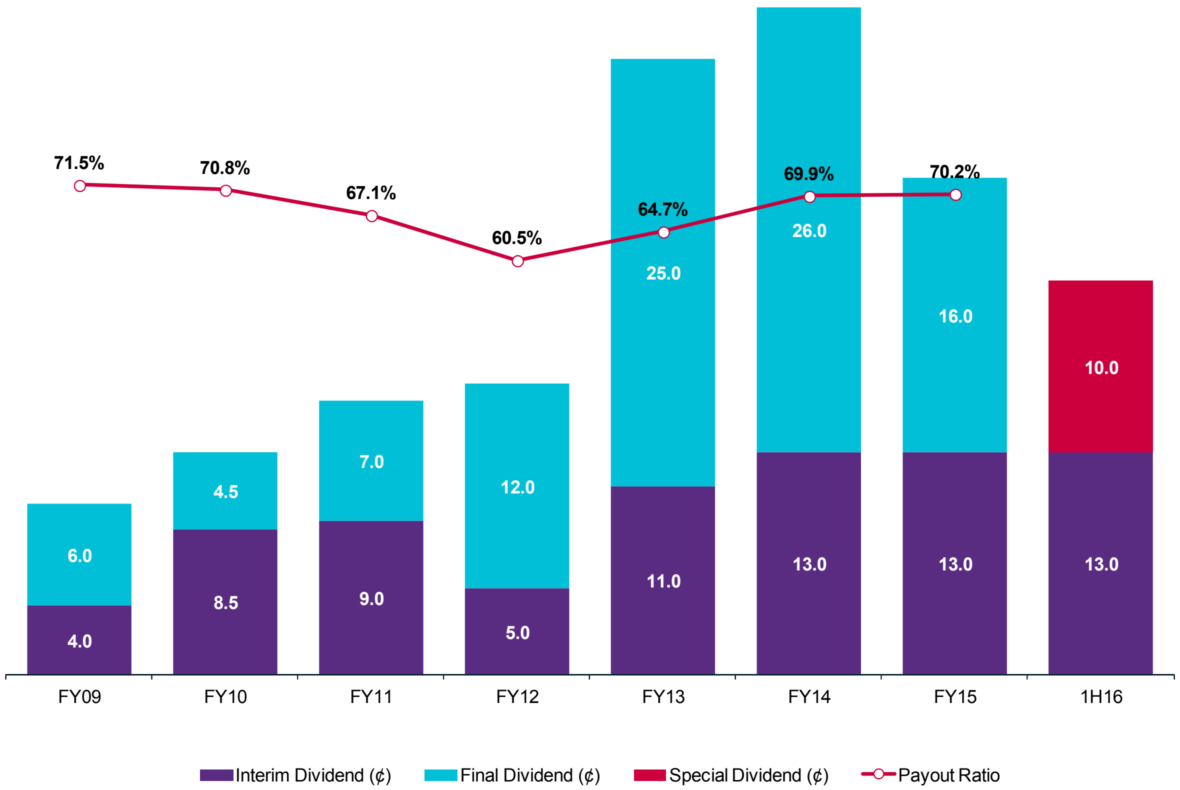
As at 31 December 2015, and after allowance for payment of the interim and special dividends, IAG's franking balance was $212m, giving it the capacity to fully frank a further $495m of distributions.

The dividend reinvestment plan (DRP) will operate for the interim and special dividends for shareholders registered for the DRP as at 5pm on 3 March 2016. The issue price per share for the 1H16 dividends 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

3. GROUP RESULTS

DIVIDEND HISTORY – FY09-1H16

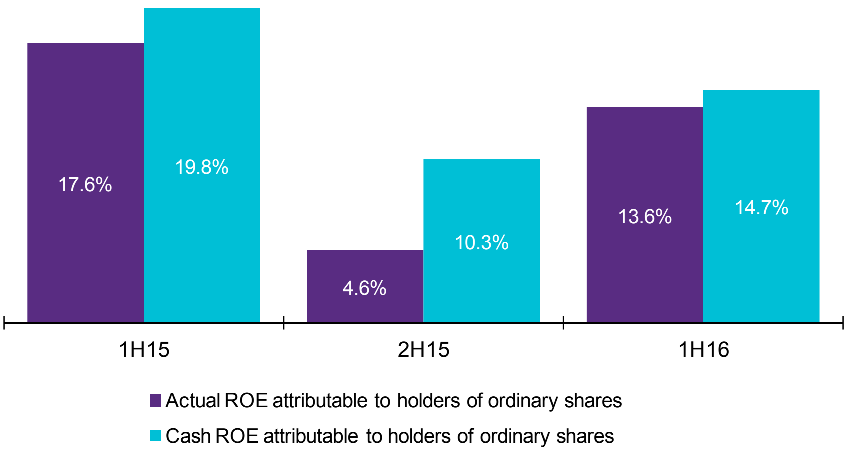


RETURN ON EQUITY

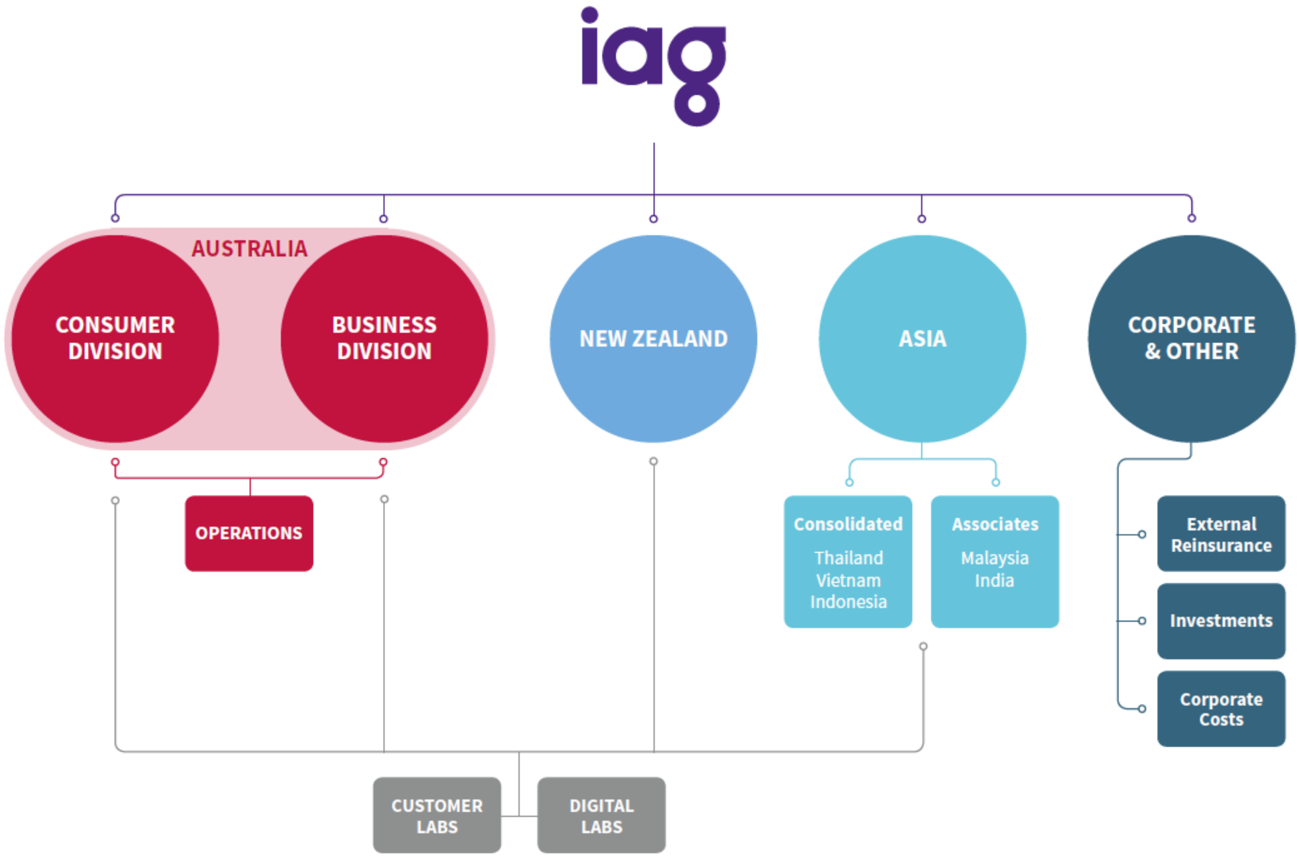
IAG targets a cash ROE of at least 1.5 times its weighted average cost of capital (WACC) on a through-the-cycle basis. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identified intangibles and unusual items. Based on IAG's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%. In 1H16, IAG reported a cash ROE of 14.7% (1H15: 19.8%).

Cash ROE of 14.7%

RETURN ON EQUITY (ANNUALISED)



4. 1H16 SEGMENTAL OVERVIEW



1H16 DIVISIONAL FINANCIAL PERFORMANCE

	Australia Consumer Division A$m	Business Division A$m	New Zealand A$m	Asia A$m	Corporate & Other A$m	Total A$m
Gross written premium	**2,848**	**1,419**	**1,070**	**197**	**9**	**5,543**
Gross earned premium	2,834	1,597	1,101	193	9	5,734
Reinsurance expense	(818)	(413)	(340)	(57)	(4)	(1,632)
Net earned premium	**2,016**	**1,184**	**761**	**136**	**5**	**4,102**
Net claims expense	(1,221)	(748)	(545)	(75)	-	(2,589)
Commission expense	(105)	(185)	(96)	(35)	(2)	(423)
Underwriting expense	(276)	(226)	(126)	(25)	(1)	(654)
Underwriting profit	**414**	**25**	**(6)**	**1**	**2**	**436**
Investment income on technical reserves	81	75	17	2	(1)	174
Insurance profit	**495**	**100**	**11**	**3**	**1**	**610**
Profit/(loss) from fee based business	-	11	1	-	(2)	10
Share of profit from associates	-	1	-	7	-	8
Total divisional results	**495**	**112**	**12**	**10**	**(1)**	**628**
Insurance Ratios						
Loss ratio	60.6%	63.2%	71.6%	55.1%		63.1%
Expense ratio	18.9%	34.7%	29.2%	44.1%		26.2%
Commission ratio	5.2%	15.6%	12.6%	25.7%		10.3%
Administration ratio	13.7%	19.1%	16.6%	18.4%		15.9%
Combined ratio	79.5%	97.9%	100.8%	99.2%		89.3%
Insurance margin	24.6%	8.4%	1.4%	2.2%		14.9%

5. CONSUMER DIVISION

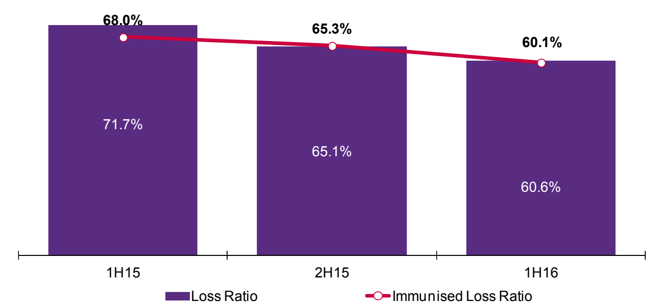
FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m
Gross written premium	**2,802**	**2,812**	**2,848**
Gross earned premium	2,814	2,780	2,834
Reinsurance expense	(365)	(279)	(818)
Net earned premium	**2,449**	**2,501**	**2,016**
Net claims expense	(1,755)	(1,628)	(1,221)
Commission expense	(129)	(132)	(105)
Underwriting expense	(388)	(413)	(276)
Underwriting profit	**177**	**328**	**414**
Investment income on technical reserves	214	69	81
Insurance profit	**391**	**397**	**495**

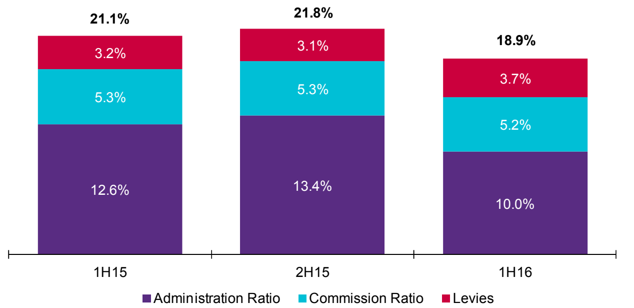
Insurance Ratios	1H15	2H15	1H16
Loss ratio	71.7%	65.1%	60.6%
Immunised loss ratio	68.0%	65.3%	60.1%
Expense ratio	21.1%	21.8%	18.9%
Commission ratio	5.3%	5.3%	5.2%
Administration ratio	15.8%	16.5%	13.7%
Combined ratio	92.8%	86.9%	79.5%
Immunised combined ratio	89.1%	87.1%	79.0%
Insurance margin	16.0%	15.9%	24.6%

INSURANCE RATIOS

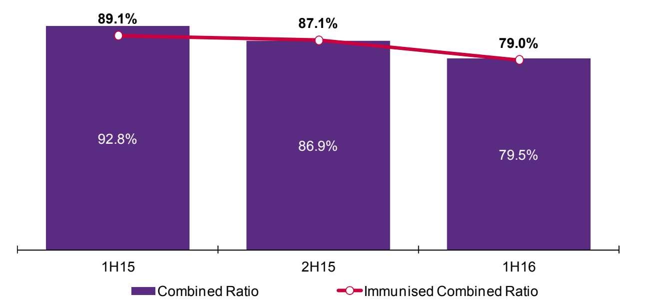
LOSS RATIO



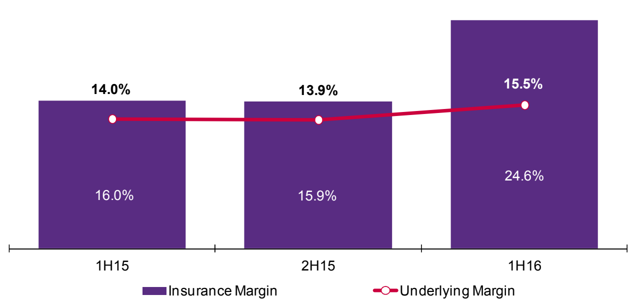
EXPENSE RATIOS



COMBINED RATIO



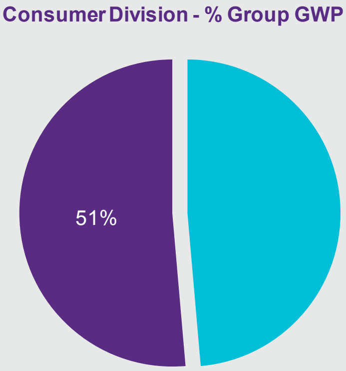
INSURANCE MARGIN



5. CONSUMER DIVISION

EXECUTIVE SUMMARY

- Consumer Division comprises Australian personal lines insurance products, including compulsory third party (CTP)
- Includes direct and intermediated (affinity & financial institution partnerships and broker & agent) channels
- Full suite of value propositions to accommodate changing customer behaviours
- 1H16 GWP growth of 1.6%, driven by short tail classes
- Strong profitability in 1H16 – underlying margin of 15.5%
- Reported margin of 24.6% boosted by significant reserve releases and favourable net perils outcome
- Adverse trends in frequency and legal representation affecting profitability of NSW CTP



PREMIUMS

The Consumer Division remains a market leader in Australian personal lines. The division offers a full range of customer value propositions, allowing accommodation of changing customer behaviours.

The division's GWP increased by 1.6% to $2,848m in 1H16 (1H15: $2,802m), with growth in 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 sound growth from the large established brands, while Coles Insurance 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.

GWP	1H15	2H15	1H16	GWP Growth 1H16 vs 1H15
Motor	1,254	1,286	1,283	2.3%
Home	1,026	1,010	1,054	2.7%
Niche & Other	93	89	92	(1.1%)
Total Short Tail	**2,373**	**2,385**	**2,429**	**2.4%**
Long Tail	429	427	419	(2.3%)
Total GWP	**2,802**	**2,812**	**2,848**	**1.6%**

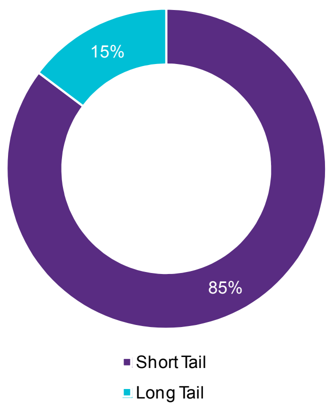
Motor GWP increased by 2.3%, compared to 1H15. Growth was obtained from a relatively even mixture of volume and rate.

Home GWP was 2.7% higher than 1H15, largely owing to higher rates, particularly in NSW. Overall home volumes were relatively flat.

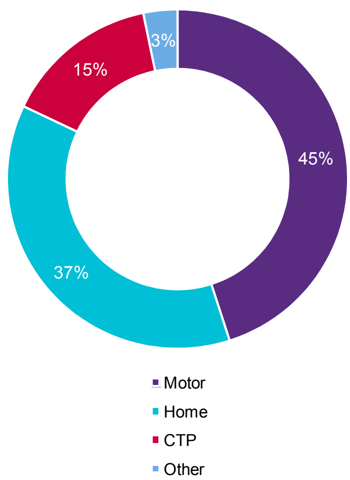
Due and paid renewal levels for both motor and home remained high, exceeding those of 1H15.

GWP increase of 1.6%, with sound short tail growth offset by lower CTP

1H16 GWP BY TAIL



1H16 GWP BY CLASS



5. CONSUMER DIVISION

Business sourced from financial partners was subdued, in an increasingly competitive market. The cessation of the relationship with Credit Union Australia (from the end of January 2015) resulted in an approximately $20m reduction in GWP compared to 1H15.

Coles Insurance's motor and home GWP growth continued to be strong in 1H16, supported by various marketing campaigns, as well as the introduction of landlord insurance from August 2015.

Niche and other short tail lines GWP, comprising boat, caravan, classic car, credit card, warranty and other specialty products, was broadly in line with 1H15.

Overall long tail (primarily CTP) GWP reduced by 2.3%, compared to 1H15, reflecting:

- Further loss of market share in ACT CTP, where the entry of three brands of a competing entity from July 2013 has seen IAG's share reduce from 100% to 66% by December 2015 (June 2015: 77%). Lower GWP has also been influenced by increased price competition in this market; and
- A lower share of NSW CTP registrations (on a 12-month rolling average basis) to 34.8%, from 36.4% in the preceding 12-month period. This was in line with expectations, reflecting a deliberate reduction in exposure to less profitable business. An offsetting influence was a 4% filed rate increase implemented at the end of August 2015. A further rate increase of approximately 4% was approved from 1 February 2016.

The Consumer Division's CTP portfolio remains subject to a 30% quota share agreement with Munich Re which runs for a minimum 3-year period from 1 July 2013. This operates alongside the 20% quota share arrangement with Berkshire Hathaway for all consolidated business, meaning 50% of the CTP book is subject to quota share in FY16.

The Consumer Division continued to enhance its digital sales and service functionality during 1H16, in particular in the self service centre and digital claims. Enhancements included:

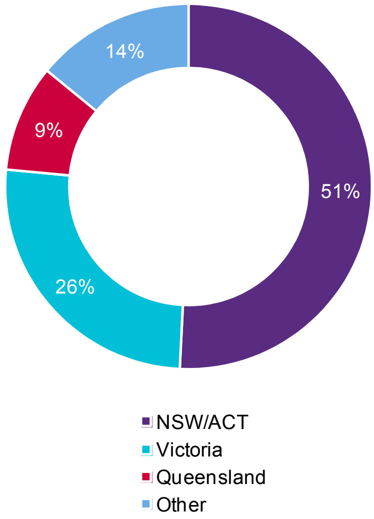
- 'Digital First' capability delivery, including optimised digital home quotes, PIN access to mobile self service and online tracking of home claims; and
- The implementation of a customer feedback programme to drive rapid improvements in customer experience.

The Consumer Division's online sales channel registered substantial growth in 1H16, with like-for-like volumes increasing by around 20%.

The Consumer Division continued to expand its overall customer offering in 1H16. In addition to the Coles Insurance landlord insurance product, new customer offerings included:

- A market-leading ridesharing solution providing cover for people who use their cars for UberX;
- 'Insurance 4 That', allowing the insurance of individual household goods;
- 'ShareCover', which caters for homeowners renting their homes to short term guests through Airbnb and Stayz;
- The 'InsureLite' home building insurance product that is designed specifically to address the issue of affordability and incorporates a pre-selected minimum damage threshold; and
- A kilometres driven / garage reward for NRMA, SGIO and SGIC motor customers.

1H16 SHORT TAIL GWP BY STATE



Lower CTP GWP reflects reduced market share in ACT and NSW

5. CONSUMER DIVISION

REINSURANCE EXPENSE

The Consumer Division's reinsurance expense was $818m in 1H16, compared to $365m in 1H15. The substantial uplift reflects inclusion of Berkshire Hathaway's 20% share of GWP under the quota share arrangement which commenced on 1 July 2015. A modest offsetting factor was the absence of the one-off cost recognised in 1H15 from an adverse development cover in respect of the CTP portfolio.

Higher reinsurance expense owing to Berkshire Hathaway quota share effect

On a like-for-like basis, the Consumer Division's 1H16 reinsurance expense fell by over 20%. This reflects:

- Lower catastrophe cover costs from the calendar 2015 renewal; and
- Full realisation of Wesfarmers-related synergies.

CLAIMS

The Consumer Division reported a lower immunised loss ratio of 60.1% in 1H16 (1H15: 68.0%). To a large degree this reflects significantly higher prior period reserve releases, compared to 1H15.

Lower loss ratio driven by increased reserve releases

The reported loss ratio of 60.6% is also considerably lower than that of 1H15 (71.7%). It contains an unfavourable risk free discount rate adjustment of $10m. This compares to a corresponding unfavourable effect of nearly $90m in 1H15.

Reserve Releases

Reserve releases of $167m were more than double the level of those reported in 1H15 ($65m), and were sourced mainly from the NSW and ACT CTP portfolios. This follows further favourable experience against existing underlying assumptions, notably claim size, finalisation rates and inflation.

While partially amplified by the Berkshire Hathaway quota share impact on reported NEP, 1H16 reserve releases rose to 8.3% of NEP, against 2.7% in 1H15. Future reserve release levels are expected to moderate.

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	65	164	167
Impact on insurance margin	**2.7%**	**6.6%**	**8.3%**

Natural Perils

Losses from natural perils (net of reinsurance) totalled $131m, which was $45m lower than the allowance for the period. This favourable outcome was assisted by some protection from the Group's aggregate cover and differed to that experienced in 1H15, when net natural peril claim costs exceeded allowance by $16m.

Favourable perils outcome, assisted by aggregate protection

There were several significant peril events for the Consumer Division during 1H16, including the:

- NSW and Adelaide hail storms in September 2015;
- Queensland and NSW thunderstorms in November 2015;
- South Australian bushfires in November 2015;
- South Sydney tornado and hail in December 2015; and
- Victorian bushfires in December 2015.

By contrast, in 1H15 one large event (the Brisbane storm in November 2014) contributed over a third of the Consumer Division's net natural peril claim costs.

5. CONSUMER DIVISION

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m
Natural peril claim costs	(245)	(314)	(131)
Natural peril allowance	229	229	176
Impact on insurance profit	**(16)**	**(85)**	**45**
Impact on insurance margin	**(0.6%)**	**(3.4%)**	**2.2%**

Claims Experience

Overall underlying claims performance deteriorated, owing to NSW CTP

The Consumer Division's short tail underlying claims performance in 1H16 was characterised by:

- Increased average motor collision costs, mainly owing to total loss experience;
- An increase in motor collision frequency;
- Higher average home fire and water claim costs, including some large fire claims in July 2015; and
- Further improvement in customer and quality outcomes from the motor repair relationship model, while minimising inflationary repair cost pressures. The model is being expanded into non-urban areas, and extended across most brands.

NSW CTP claim lodgements have continued to increase across 1H16. As in FY15, this increase is most significant for minor severity, legally represented claims. As the NSW CTP regulator signalled in its November 2015 Scheme Performance Report, structural and procedural changes to the scheme are needed to maintain the sustainability and affordability of CTP in NSW.

EXPENSES

Relatively flat expenses, ex-quota share effects

The Consumer Division's reported expenses totalled $381m in 1H16, compared to $517m in 1H15. The 26% reduction in reported expenditure is largely explained by the first-time application of the quota share arrangement which sees:

- Berkshire Hathaway assuming 20% of all commission and underwriting expenses; and
- Receipt of an exchange commission from Berkshire Hathaway, which is applied against the underwriting expense line.

On a pre-quota share basis, overall expenses were relatively flat, reflecting:

- Increased reinvestment in the business, including specific projects directed at improving customer service, product design and people development;
- Increased marketing and advertising expenditure; and
- Realisation of further benefits from implementation of the revised operating model in Australia.

The reported expense ratio declined to 18.9% (1H15: 21.1%), aided by inclusion of the exchange commission, and on an ex-levies basis the Consumer Division's administration ratio was 10.0% (1H15: 12.6%).

INSURANCE PROFIT

Strong underlying margin of 15.5% in 1H16, enhanced by quota share effect

The Consumer Division reported an insurance profit of $495m, compared to $391m in 1H15. This equates to a higher reported insurance margin of 24.6% (1H15: 16.0%), which included a quota share-related uplift and the benefit of markedly higher reserve releases. The result also absorbed an adverse credit spread movement of over $30m, relative to 1H15.

5. CONSUMER DIVISION

At an underlying level, the Consumer Division's performance has remained strong. The higher underlying margin of 15.5% (1H15: 14.0%) embraces a favourable quota share effect of approximately 250bps, with some 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 average costs and frequency, as well as an increase in large home fire claims.

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	65	164	167
Natural perils	(245)	(314)	(131)
Natural peril allowance	229	229	176
Credit spreads	23	(4)	(9)
Reserve releases	2.7%	6.6%	8.3%
Natural perils	(10.0%)	(12.6%)	(6.5%)
Natural peril allowance	9.4%	9.2%	8.7%
Credit spreads	0.9%	(0.2%)	(0.4%)

MARKET REGULATION AND REFORM

The industry remains subject to a number of legislative reviews

Several legislative reviews and inquiries are underway with potential implications for the Consumer Division:

- 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 2016;
- 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. On 20 October 2015 the Australian Government released its response to this report. Implementation of a number of the recommendations will be subject to detailed consultation with stakeholders;
- The Australian Government's response to the Competition Policy Review was released in November 2015. The Government has published a Discussion Paper and referred the issue of an 'effects test' for further consultation. Submissions were due on 12 February 2016 and a government response is expected in March 2016. The Australian Government has also announced a Review of the Australian Consumer Law, including the Unfair Contract Terms protections, to be undertaken in 2016 and finalised in 2017;
- 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 which 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 Taskforce delivered its Final Report in December 2015, which the Government is expected to release, along with its response, in 2016;

5. CONSUMER DIVISION

- 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. The industry continues to engage with key stakeholders on scheme design issues; and
- In December 2015 the NSW Government announced it would abolish the Emergency Services Levy on insurance policies and replace it with an Emergency Services Property Levy, paid alongside council rates, with effect from 1 July 2017. The Government has appointed an Emergency Services Levy Insurance Monitor to ensure that insurers pass on the cost savings to consumers. Legislation to enact the reforms will be introduced in the first half of 2016.

MARKET ENVIRONMENT AND OUTLOOK

Consumer Division well-placed to meet challenges of increasingly competitive market

Growth in personal insurance demand is expected to be modest over the balance of FY16.

Competition is expected to remain strong, with aggressive acquisition activity anticipated to remain a feature of the market. The Consumer Division is well-equipped to compete in this environment, with its full range of customer value propositions, including an enlarged challenger offering embracing the SGIO, SGIC and Coles Insurance brands.

Growth in the sharing economy and changes in consumers' attitudes towards asset ownership, combined with affordability concerns, are creating opportunities for new insurance products. Drawing on Customer Labs' development of new products that reflect this changing environment, the Consumer Division will build on the flow of new customer offerings already evident in 1H16, reinforcing its relevance to consumers.

The Consumer Division's continued focus on its customer experience and cost effectiveness is expected to help it maintain its strong profitability and market position. The development of clear customer value propositions as part of its multi-brand strategy will ensure successful execution of its customer-led strategies.

GWP growth beyond FY16 will be assisted by the Consumer Division's entry into South Australian CTP where, operating under the SGIC brand, it has been confirmed as one of four participants in this newly privatised market, from 1 July 2016. The South Australian CTP scheme's current annual premium pool is estimated to be around $400m.

6. BUSINESS DIVISION

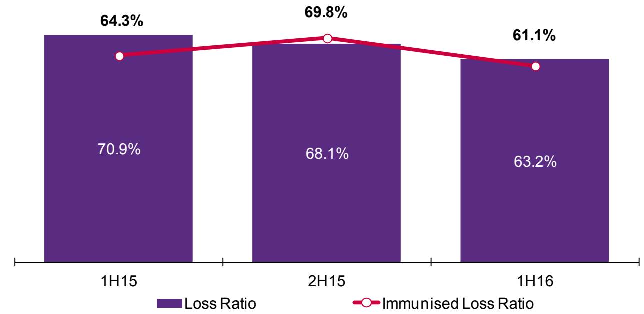
FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m
Gross written premium	**1,514**	**1,678**	**1,419**
Gross earned premium	1,673	1,594	1,597
Reinsurance expense	(122)	(90)	(413)
Net earned premium	**1,551**	**1,504**	**1,184**
Net claims expense	(1,099)	(1,024)	(748)
Commission expense	(229)	(221)	(185)
Underwriting expense	(301)	(291)	(226)
Underwriting profit/(loss)	**(78)**	**(32)**	**25**
Investment income on technical reserves	180	23	75
Insurance profit/(loss)	**102**	**(9)**	**100**
Profit from fee based business	9	7	11
Share of profit from associates	-	-	1
Total divisional result	**111**	**(2)**	**112**

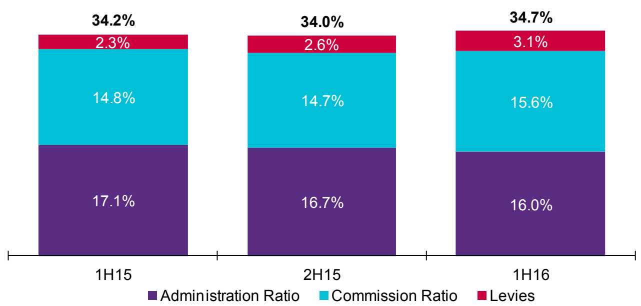
Insurance Ratios	1H15	2H15	1H16
Loss ratio	70.9%	68.1%	63.2%
Immunised loss ratio	64.3%	69.8%	61.1%
Expense ratio	34.2%	34.0%	34.7%
Commission ratio	14.8%	14.7%	15.6%
Administration ratio	19.4%	19.3%	19.1%
Combined ratio	105.1%	102.1%	97.9%
Immunised combined ratio	98.5%	103.8%	95.8%
Insurance margin	6.6%	(0.6%)	8.4%

INSURANCE RATIOS

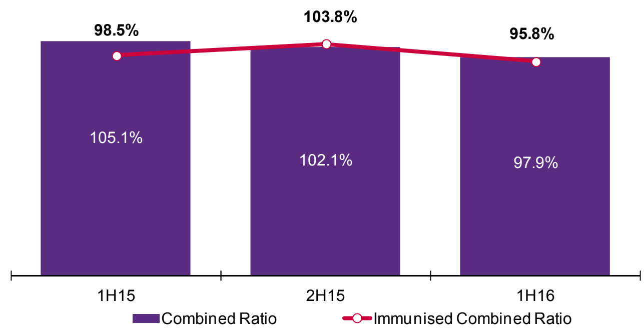
LOSS RATIO



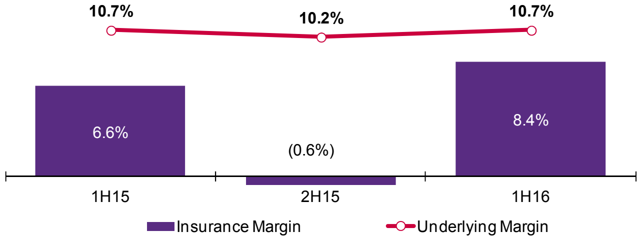
EXPENSE RATIOS



COMBINED RATIO



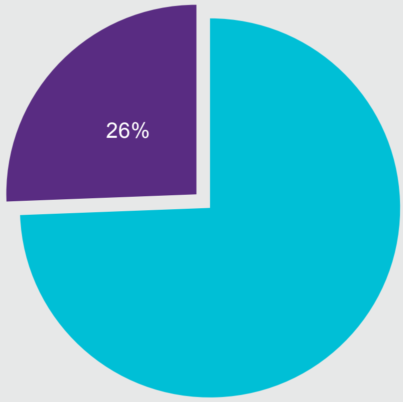
INSURANCE MARGIN



6. BUSINESS DIVISION

EXECUTIVE SUMMARY

- Business Division comprises all commercial insurance products sold in Australia under the CGU, WFI, NRMA, RACV, SGIO and SGIC brands, as well as niche products sold through brands such as Swann Insurance
- Underwriting discipline maintained in environment of soft commercial market conditions
- 1H16 GWP decline of 6.3%, partly driven by workers' compensation and strata portfolios
- Integration of former Wesfarmers business continues to proceed to plan – increased synergies realised
- Sound underlying margin of 10.7%, while reported margin of 8.4% adversely impacted by natural perils
- Tough short term outlook anticipated in face of elevated industry capacity, with signs of cycle-bottoming apparent



PREMIUMS

The Business Division's GWP of $1,419m represented a contraction of 6.3% compared to 1H15 ($1,514m). Retention levels have remained strong in most portfolios, with overall GWP reflecting lower average rates and market weakness in specific portfolios, such as workers' compensation and strata. December renewal activity has provided some indication that a bottoming of the prolonged cyclical downturn is now occurring.

In the face of persistently soft market conditions, the Business Division has maintained its strict underwriting discipline through targeted portfolio reviews. The division has consolidated its market-leading position in the Australian commercial insurance market, with retention levels applicable to the acquired former Wesfarmers business within the expected range.

A large portion of the reduction in GWP is attributable to the following combination of factors:

- Lower workers' compensation GWP, where weaker economic conditions in Western Australia have impacted wage rolls;
- Within the large-corporate property portfolio, the transfer of renewal rights to Berkshire Hathaway under the terms of the strategic relationship, which will remain a feature of 2H16 as the balance of the portfolio renews; and
- Fierce competition from new entrants in the strata segment, where Business Division's adherence to acceptable prices has resulted in lower volume.

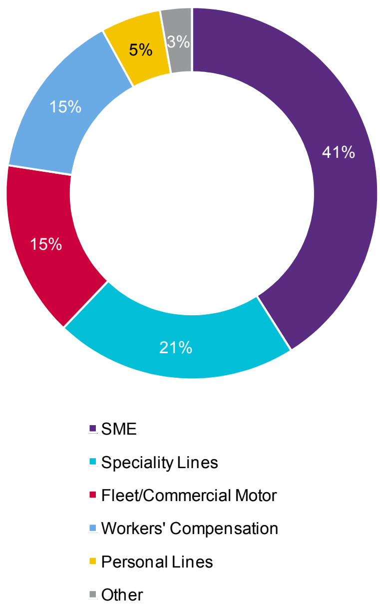
A number of portfolios continue to experience moderate growth, most notably business packages and liability. Within the mid-market property book, retention has remained high but increased market competition has continued to drive rate reductions.

The Business Division continues to pursue an underwriting agency growth strategy, with this area delivering GWP growth of 2% despite weaker strata volumes. 1H16 included the first contribution from the SURA specialty underwriting business acquired in FY15. In addition, the remaining 50% stake in Accident and Health International was acquired on 1 July 2015 and the Business Division entered into a partnership with Pacific Indemnity to write specialised professional risk products.

Long tail classes represented approximately 25% of the Business Division's GWP in 1H16, consistent with 1H15.

GWP declined over 6% in soft market environment

1H16 GWP BY CLASS



6. BUSINESS DIVISION

The Business Division continues to strengthen its partnerships and improve the quality of service delivered, including digital and platform capability and initiatives that provide real time insights to improve customer and partner experience. This has been reflected in its continued industry recognition:

- 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, for the first time in the event's 12-year history;
- In September 2015, CGU was voted 2015 Insurer of the Year in the annual National Insurance Brokers Association (NIBA) Insurer Survey by Brokers, winning seven of the 11 categories. In total more than 1,100 brokers took part in the survey; and
- In October 2015, the latest AIMS survey results reaffirmed the division's strong position amongst brokers with most products performing well in terms of overall satisfaction.

REINSURANCE EXPENSE

Higher reinsurance expense owing to Berkshire Hathaway quota share effect

The Business Division's reinsurance expense was $413m in 1H16, compared to $122m in 1H15. The substantial uplift reflects inclusion of Berkshire Hathaway's 20% share of GWP under the quota share arrangement which commenced on 1 July 2015.

On a like-for-like basis, the Business Division's 1H16 reinsurance expense fell by nearly 15%. This reflects:

- Lower catastrophe cover costs from the calendar 2015 renewal; and
- Full realisation of Wesfarmers-related synergies.

CLAIMS

Slight deterioration in underlying claims performance, reflecting pressure on NEP

The Business Division's immunised loss ratio of 61.1% for 1H16 was lower than 1H15's 64.3%. Alongside the quota share effect, this movement incorporates a much-reduced adverse net natural peril claim experience, compared to 1H15.

The underlying claims performance has deteriorated slightly from previous periods. While the benefits of improved underwriting, higher claim deductibles and indemnity cost savings are still being achieved, this has been more than offset by the average rate reduction affecting NEP.

The reported loss ratio improved to 63.2% (1H15: 70.9%), and contains an unfavourable risk free discount rate adjustment of $24m, compared to an unfavourable effect of just over $100m in 1H15.

Reserve Releases

Slightly higher reserve releases

Prior period reserve releases of $29m were slightly higher than those reported in 1H15 ($25m) and, at 2.4% of NEP, remain above the Group's long term expectation of 1%. 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.

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	25	43	29
Impact on insurance margin	**1.6%**	**2.9%**	**2.4%**

6. BUSINESS DIVISION

Natural Perils

Perils above allowance, despite some relief from aggregate cover

Net natural peril claim costs amounted to $133m in 1H16, which was $38m higher than the related allowance. Net natural peril costs were over $30m lower than those for 1H15, with the 1H16 outcome assisted by protection from the Group's aggregate cover.

There were several significant peril events for the Business Division during 1H16, including the:

- Queensland hail storms in November 2015;
- South Australian bushfires in November 2015; and
- South Sydney tornado and hail in December 2015.

The higher perils incidence in 1H15 contained a number of reasonable-sized losses, most notably that from the Brisbane storm in November 2014, which contributed a claim cost approaching $60m.

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m
Natural peril claim costs	(164)	(262)	(133)
Natural peril allowance	74	74	95
Impact on insurance profit	**(90)**	**(188)**	**(38)**
Impact on insurance margin	**(5.8%)**	**(12.5%)**	**(3.2%)**

EXPENSES

Flat expenses, excluding quota share effects

The Business Division's reported expenses totalled $411m in 1H16, compared to $530m in 1H15. The 22% reduction in reported expenditure is largely explained by the first-time application of the quota share arrangement which sees:

- Berkshire Hathaway assuming 20% of all commission and underwriting expenses; and
- Receipt of an exchange commission from Berkshire Hathaway, which is applied against the underwriting expense line.

On a pre-quota share basis, overall expenses were flat, reflecting the net effect of:

- The realisation of further synergies from the integration of the former Wesfarmers business and the move to a new operating model, as duplicate functions are eliminated; and
- The cost of increased reinvestment in the business, including higher project-related costs and the commencement of depreciation of recently completed core system replacement.

The Business Division's reported expense ratio was 34.7% (1H15: 34.2%), and, on an ex-levies basis, its administration ratio reduced to 16.0% (1H15: 17.1%). Favourable effects on reported ratios from inception of the quota share have been countered by the influence of softer market conditions on reported NEP.

The Business Division's commission ratio increased to 15.6% (1H15: 14.8%), reflecting changes in business mix and the impact of softer market conditions on reported NEP.

6. BUSINESS DIVISION

INSURANCE PROFIT

Underlying margin of 10.7% - quota share effect offset by tough commercial market conditions

The Business Division reported an insurance profit of $100m, a similar result to 1H15 ($102m). This equates to a reported insurance margin of 8.4% (1H15: 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 $23m, with a negative impact of $6m in 1H16 contrasting with a favourable effect of $17m in 1H15.

The Business Division produced a 1H16 underlying margin of 10.7%, which was similar to 1H15. Excluding the favourable quota share effect, some contraction in underlying performance is evident, as the effect of tough commercial market conditions was partially offset by the further synergies from the integration of the former Wesfarmers business and the move to a revised operating model in Australia.

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	25	43	29
Natural perils	(164)	(262)	(133)
Natural peril allowance	74	74	95
Credit spreads	17	(3)	(6)
Reserve releases	1.6%	2.9%	2.4%
Natural perils	(10.6%)	(17.4%)	(11.2%)
Natural peril allowance	4.8%	4.9%	8.0%
Credit spreads	1.1%	(0.2%)	(0.5%)

FEE BASED INCOME

Higher fee based result, including benefits from past restructuring

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 1H16, net income from fee based operations was $11m, compared to $9m in 1H15.

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

The 1H16 result contained $5m of prior period fee income for the Victorian scheme, which was slightly lower than the $6m received in 1H15. Excluding this income, the underlying result was $3m higher than 1H15, with the benefits of past restructuring activity in NSW more than offsetting the lower performance fee income available under that scheme.

The current Victorian contract expires on 30 June 2016 and the Business Division participated in the Request for Tender process at the end of calendar 2015. The successful agents are expected to be notified in late March / early April 2016 for what is expected to be another five-year term.

6. BUSINESS DIVISION

MARKET REGULATION AND REFORM

Several legislative reviews and inquiries are underway with potential implications for the Business Division:

- 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 2016;
- 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. On 20 October 2015 the Australian Government released its response to this report. Implementation of a number of the recommendations will be subject to detailed consultation with stakeholders;
- The Australian Government's response to the Competition Policy Review was released in November 2015. The Government has published a Discussion Paper and referred the issue of an 'effects test' for further consultation. Submissions were due on 12 February 2016 and a government response is expected in March 2016. The Australian Government has also announced a Review of the Australian Consumer Law, including the Unfair Contract Terms protections, to be undertaken in 2016 and finalised in 2017;
- 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 which 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 Taskforce delivered its Final Report in December 2015, which the Government is expected to release, along with its response, in 2016; and
- In December 2015 the NSW Government announced it would abolish the Emergency Services Levy on insurance policies and replace it with an Emergency Services Property Levy, paid alongside council rates, with effect from 1 July 2017. The Government will also appoint an Emergency Services Levy Insurance Monitor to ensure that insurers pass on the cost savings to consumers. Legislation to enact the reforms will be introduced in the first half of 2016.

The industry remains subject to a number of legislative reviews

MARKET ENVIRONMENT AND OUTLOOK

The Australian commercial market currently presents a difficult growth proposition. A highly competitive environment continues to place pressure on premium rates, while there is limited short term prospect of additional stimulus from improved economic conditions. There are, however, growing signs that the extended cyclical downturn in the market is in the process of bottoming.

The challenging industry setting is expected to persist throughout the remainder of FY16 and constrain industry growth. Insurance margin pressure is expected to continue to be driven by low investment returns and the relative absence of market price increases.

Difficult commercial market conditions expected to persist in the short term, but growing signs of a cyclical bottoming

6. BUSINESS DIVISION

Increasing market complexity is evident across the competitive landscape, with insurers seeking to secure distribution through underwriting agencies and distribution agreements, whilst brokers and reinsurers pursue growth in other areas of the insurance value chain.

Despite the challenging environment, there remain opportunities to invest in innovation and adjacent businesses to broaden the insurance offering and provide future pools of growth. Drawing on Customer Labs' expertise, the Business Division is well-positioned to leverage digital technology to improve customer experience and expand distribution opportunities, as well as make its channels to market more efficient and effective.

The impacts of market and cyclical challenges are expected to be moderated by the further realisation of synergies from integration of the former Wesfarmers business and efficiencies from the new operating model in Australia. The Business Division's focus remains on growing its core business profitably through sound risk selection, rational pricing and active claims management.

7. NEW ZEALAND

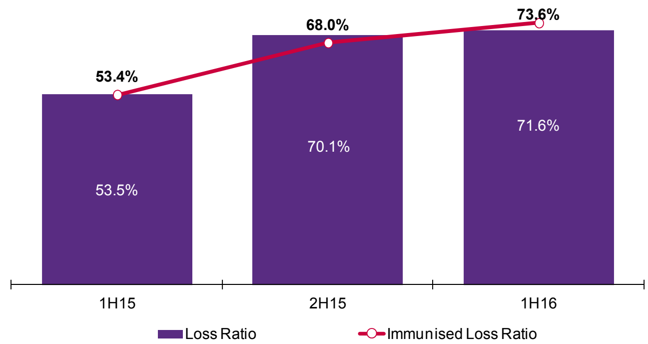
FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m
Gross written premium	**1,116**	**1,151**	**1,070**
Gross earned premium	1,148	1,151	1,101
Reinsurance expense	(143)	(151)	(340)
Net earned premium	**1,005**	**1,000**	**761**
Net claims expense	(538)	(701)	(545)
Commission expense	(121)	(121)	(96)
Underwriting expense	(178)	(192)	(126)
Underwriting profit/(loss)	**168**	**(14)**	**(6)**
Investment income on technical reserves	25	37	17
Insurance profit	**193**	**23**	**11**
Profit from fee based business	2	2	1
Total divisional result	**195**	**25**	**12**

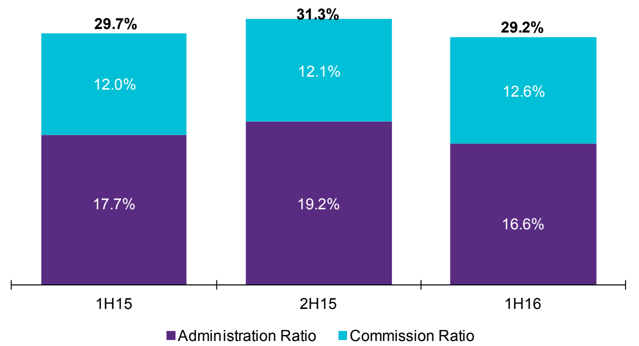
Insurance Ratios	1H15	2H15	1H16
Loss ratio	53.5%	70.1%	71.6%
Immunised loss ratio	53.4%	68.0%	73.6%
Expense ratio	29.7%	31.3%	29.2%
Commission ratio	12.0%	12.1%	12.6%
Administration ratio	17.7%	19.2%	16.6%
Combined ratio	83.2%	101.4%	100.8%
Immunised combined ratio	83.1%	99.3%	102.8%
Insurance margin	19.2%	2.3%	1.4%

INSURANCE RATIOS

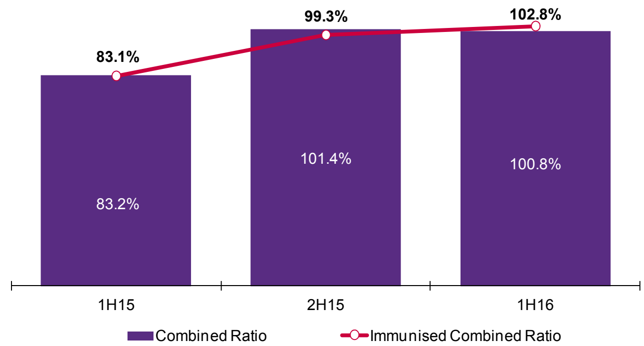
LOSS RATIO



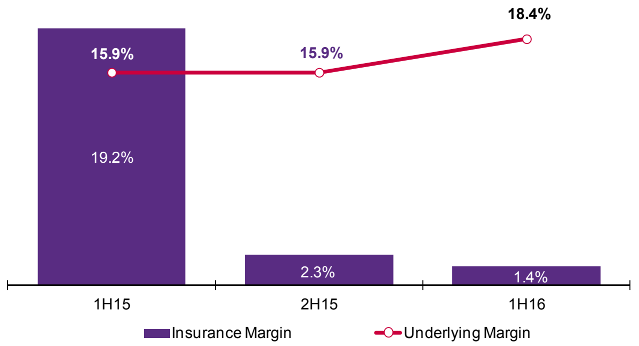
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

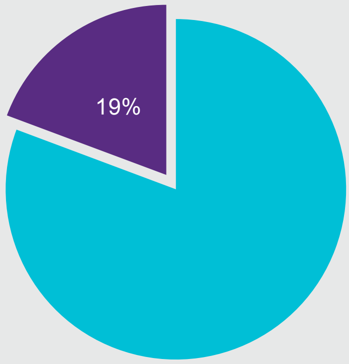


7. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- 4.1% contraction in GWP – soft commercial market partially offset by robust personal lines performance
- Operating performance has remained strong – underlying margin of 18.4%
- Solid progress on Canterbury rebuild
- ADC plus NZ$150m increased risk margin on February 2011 event – effective cover to NZ$5bn
- Integration of Lumley Insurance business successfully completed
- Strong performance expected to be maintained over balance of FY16

New Zealand - % Group GWP



PREMIUMS

New Zealand's 1H16 GWP of NZ$1,174m decreased by 4.0% compared to the same period last year (1H15: NZ$1,223m). The local currency GWP 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 $1,070m, including a marginally negative foreign exchange translation effect compared to 1H15.

The intermediated business (including NZI, Lumley and financial institution partners) represented 61% of GWP in 1H16 (1H15: 63%). Increased competition and changing risk appetite by other participants in the market continue to place pressure on commercial product lines, especially commercial property where IAG has experienced item loss and rate reductions. Retention rates remain steady across intermediated personal lines products, where modest rate increases were applied to appropriately price for risk.

The direct insurance business, which consists primarily of the State and AMI brands, represented 39% of GWP in 1H16 (1H15: 37%) and achieved growth of nearly 2% compared to the same period last year. The business remains focused on meeting customers' needs and expectations by providing greater choice on insurance offerings, ensuring affordability issues are addressed and providing positive customer experiences.

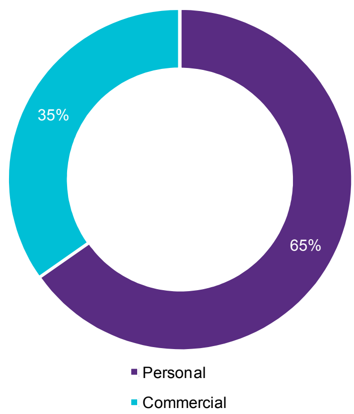
AMI achieved premium growth in its private motor book against a backdrop of increased competition from both existing and new competitors. AMI has strengthened its brand over the last six months, with improved new business growth evident following digital initiatives such as 'quote and buy', the 'AMI Online Account' and a social media presence through Facebook.

The State online channel continues to grow as it focuses on balancing customer affordability issues and increased competition by appropriately managing rate increases.

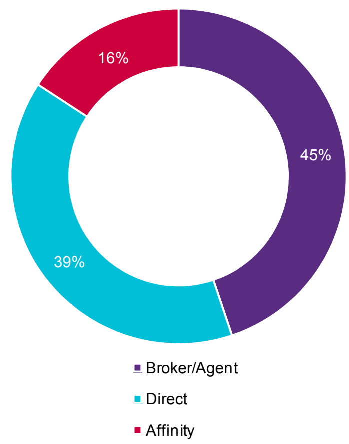
Targeted customer initiatives, including the *New New Zealanders* and *Young Drivers* campaigns, have demonstrated how the direct business is meeting the needs of the customer.

Local currency GWP decrease of 4%, reflecting tough commercial market environment

1H16 GWP BY CLASS



1H16 GWP BY CHANNEL



7. NEW ZEALAND

REINSURANCE EXPENSE

New Zealand's reinsurance expense was $340m in 1H16, compared to $143m in 1H15. The substantial uplift reflects inclusion of Berkshire Hathaway's 20% share of GWP under the quota share arrangement which commenced on 1 July 2015.

On a like-for-like basis, New Zealand's 1H16 reinsurance expense fell by over 15%. This reflects:

- Lower catastrophe cover costs from the calendar 2015 renewal; and
- Full realisation of Wesfarmers-related synergies.

Higher reinsurance expense owing to Berkshire Hathaway quota share effect

CLAIMS

New Zealand produced an immunised loss ratio of 73.6% in 1H16 (1H15: 53.4%). This contained:

- Slightly higher net natural peril claim costs of $14m (1H15: $11m), but well below allowance; and
- NZ$150m of risk margin increase in respect of the February 2011 Canterbury earthquake event.

Increased loss ratio driven by increased risk margin for February 2011 earthquake event

The reported loss ratio of 71.6% (1H15: 53.5%) includes a favourable foreign exchange effect of $14m associated with reinsurance recoveries in respect of the earthquakes in FY11, held by the offshore captive in Singapore. A corresponding negative effect is included in investment income on technical reserves, resulting in no net impact to the insurance margin.

1H16 saw a low incidence of natural peril activity, with net related claim costs $14m below allowance. There were no significant events during the period.

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m
Natural peril claim costs	(11)	(48)	(14)
Natural peril allowance	46	46	28
Impact on insurance profit	**35**	**(2)**	**14**
Impact on insurance margin	**3.5%**	**(0.2%)**	**1.9%**

Prior period reserve movements were dominated by the NZ$150m increase to risk margin in respect of the February 2011 earthquake event. There was a small additional net reserve strengthening derived from the adverse development of attritional claims associated with FY15 weather events.

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	(2)	(134)	(143)
Impact on insurance margin	**(0.2%)**	**(13.4%)**	**(18.8%)**

IAG had already exceeded its NZ$4bn reinsurance limit on the February 2011 event and has acted to materially reduce associated uncertainty via an ADC which provides NZ$600m of protection in excess of NZ$4.4bn. Inclusive of risk margin, the February 2011 event is now covered to NZ$5bn.

Effective February 2011 event cover to NZ$5bn, including risk margin and ADC

The financial effect of the ADC, which is part of a combined reinsurance transaction that also addresses IAG's asbestos run-off portfolio, will be recognised in IAG's 2H16 results in the Group's net corporate expense line.

In addition, there has been increased attribution of claim costs to the September 2010 event, where IAG remains well within its reinsurance cover. Gross reserves for this event have increased by NZ$150m.

7. NEW ZEALAND

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.

Working claims experience in 1H16 was in line with expectations, with the exception of the private motor book of business. Higher average claims experience in this portfolio was driven by several factors, including lower recoveries from the salvage process. A number of initiatives are in place to address this trend.

The large claims (greater than NZ$100,000) experience in 1H16 reflected a higher incidence of personal property fires compared to 1H15, but was in line with expectations.

Canterbury Rebuild

At 31 December 2015 the New Zealand business had completed over NZ$5.3bn in claim settlements in respect of the Canterbury earthquakes (FY15: approximately NZ$4.5bn). Approximately 85% (FY15: 78%) of all claims by number had been fully settled at that date.

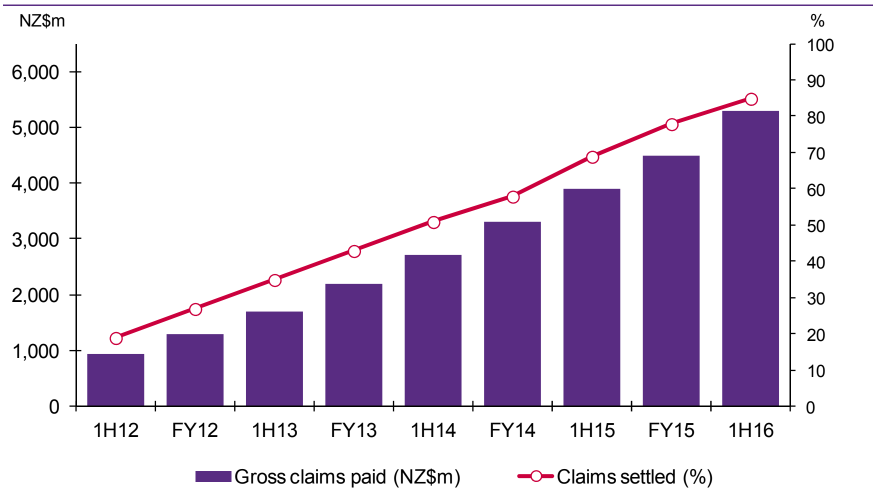
Over NZ$5.3bn of FY11 earthquake claims now paid – c.85% of claims by number fully settled

Finalisation of commercial claims has continued to advance in line with expectations, with over 94% settled by 31 December 2015 (FY15: 91%). Residential claims also continue to make steady progress, with over 83% settled by the end of 1H16 (FY15: 75%).

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 EQC and claims subject to dispute or litigation may take longer to settle.

All earthquake settlement statistics presented 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 further financial exposure for IAG.

FY11 CANTERBURY EARTHQUAKES – CLAIMS SETTLEMENT*



*Excludes Lumley business.

7. NEW ZEALAND

EXPENSES

Slightly lower expenses, excluding quota share effects

New Zealand's reported expenses totalled $222m in 1H16, compared to $299m in 1H15. The 26% reduction in reported expenditure is largely explained by the first-time application of the quota share arrangement which sees:

- Berkshire Hathaway assuming 20% of all commission and underwriting expenses; and
- Receipt of an exchange commission from Berkshire Hathaway, which is applied against the underwriting expense line.

On a pre-quota share basis, overall expenses were slightly lower, reflecting the net effect of:

- Continued investment in specific key areas, such as digital capability;
- Holding to prior period spending levels through disciplined cost management; and
- Realisation of residual synergies associated with the acquisition of the Lumley business. The Lumley integration was completed by December 2015 with total realised synergies in line with original expectations.

The reported expense ratio reduced to 29.2% (1H15: 29.7%), while a higher commission ratio reflected business mix changes and lower NEP.

In November 2015 the Reserve Bank of New Zealand approved the transfer of the insurance business of AMI Insurance Limited and Lumley General Insurance (N.Z.) Limited to IAG New Zealand Limited. This took effect on 14 December 2015, enabling the New Zealand business to operate as one licenced entity.

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves includes a negative foreign exchange impact of $14m 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 positive 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 a significantly lower insurance profit of $11m in 1H16 (1H15: $193m), which equates to a reported insurance margin of 1.4% (1H15: 19.2%) and reflects the combination of:

- The NZ$150m increase to risk margin for the February 2011 earthquake event;
- The 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 issues with high regulatory and reinsurance costs in a very competitive market. The business remains focused on providing flexible product and pricing offerings to support customers and ensure they can maintain insurance coverage.

7. NEW ZEALAND

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m
Reserve releases	(2)	(134)	(143)
Natural perils	(11)	(48)	(14)
Natural peril allowance	46	46	28
Reserve releases	(0.2%)	(13.4%)	(18.8%)
Natural perils	(1.1%)	(4.8%)	(1.8%)
Natural peril allowance	4.6%	4.6%	3.7%

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

In December 2015, IAG agreed the sale of its New Zealand-based Runacres broking operation. This resulted in a profit on disposal which has been recognised in net corporate expenses at the Group level, in 1H16. Income from this business has historically been identified in New Zealand's 'profit from fee based business' line, and this will cease from 2H16.

MARKET REGULATION AND REFORM

EQC reform expected to become operative in 2017

In September 2015 the New Zealand Government received public submissions on its proposed changes to the Earthquake Commission Act 1993 which governs the operations of the EQC. An exposure draft of the reform package is anticipated before it is introduced in parliament in mid-2016, with an expectation that the changes will become operative from 1 July 2017. 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);
- 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.

The Minister of Internal Affairs announced changes to New Zealand's fire services model in November 2015. A unified organisation amalgamating the New Zealand Fire Service, National Rural Fire Authority and Rural Fire Authorities will be established and include regional committees. Decisions on how to fund the new model are still to be made, with legislation to be introduced to parliament in 2016, and the new organisation to be set up from mid-2017.

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

- A review of the law relating to financial advice and dispute resolution schemes;
- Implementation of the fair insurance code;

7. NEW ZEALAND

- A review of the Commerce Act;
- 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 small and large-scale natural hazards.

MARKET ENVIRONMENT AND OUTLOOK

The New Zealand economy is exhibiting a steady performance with GDP expected to grow around 2-2.5% in 2016. A plateauing of the Canterbury rebuild, together with strong population growth, is expected to put pressure on the unemployment rate, however consumer and business confidence remains positive through historically low inflation levels coupled with higher employment participation rates. Inflation has remained well below the Reserve Bank's 2% mid-point target, resulting in a further 25bps cut in the Official Cash Rate to 2.5% in December 2015.

Underlying profitability expected to remain strong

The New Zealand business' strategy continues to be one of maintaining its market-leading position while sustaining its strong underlying profitability by focusing on pricing and underwriting disciplines to protect underwriting margins.

The overall market is expected to remain very competitive, both in the intermediated and direct segments, with anticipated ongoing rate pressure over the medium term expected to restrict GWP growth prospects.

Underlying profitability of the business is expected to remain strong over the balance of FY16.

8. ASIA

FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m
Gross written premium	**164**	**189**	**197**
Gross earned premium	163	187	193
Reinsurance expense	(19)	(22)	(57)
Net earned premium	**144**	**165**	**136**
Net claims expense	(84)	(106)	(75)
Commission expense	(37)	(41)	(35)
Underwriting expense	(22)	(27)	(25)
Underwriting profit/(loss)	**1**	**(9)**	**1**
Investment income on technical reserves	7	6	2
Insurance profit/(loss)	**8**	**(3)**	**3**
Share of profit from associates	**9**	**7**	**7**
Total divisional result	**17**	**4**	**10**

FINANCIAL CONTRIBUTION BY COUNTRY

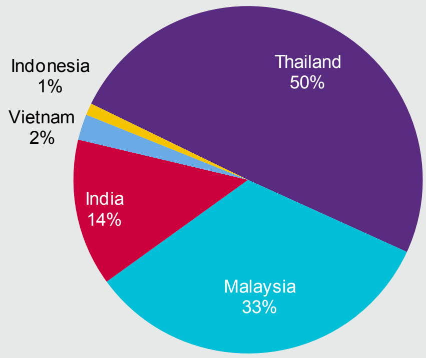
	Gross GWP		Proportional GWP		Earnings Contribution	
	1H15 A$m	1H16 A$m	1H15 A$m	1H16 A$m	1H15 A$m	1H16 A$m
Thailand	155	184	155	184	11	10
Malaysia	272	252	133	123	19	17
Established markets	**427**	**436**	**288**	**307**	**30**	**27**
India	134	197	35	51	1	(2)
China	193	-	39	-	(1)	-
Vietnam	9	9	9	9	1	(1)
Indonesia	-	4	-	4	-	1
Developing markets	**336**	**210**	**83**	**64**	**1**	**(2)**
Total Asian operations	**763**	**646**	**371**	**371**	**31**	**25**
Support and development costs	n/a	n/a	n/a	n/a	(14)	(15)
Total divisional result	**763**	**646**	**371**	**371**	**17**	**10**

8. ASIA

EXECUTIVE SUMMARY

- Asia is an attractive long term growth opportunity for IAG
- IAG has established a presence in five markets: Thailand, Malaysia, India, Vietnam and Indonesia
- Proportional GWP of over $370m – continued strong growth in India
- Overall divisional profit of $10m (1H15: $17m), including adverse mark-to-market movement on investments
- Strong underlying performances from established businesses (Thailand and Malaysia)
- Collective developing businesses (India, Vietnam and Indonesia) broadly tracking to plan
- No further investment in China – investment in Bohai transferred to shareholders' funds following ownership dilution
- Further operational progress expected in 2H16

Asia GWP Mix 1H16 - Proportional Basis



THE ASIAN OPPORTUNITY

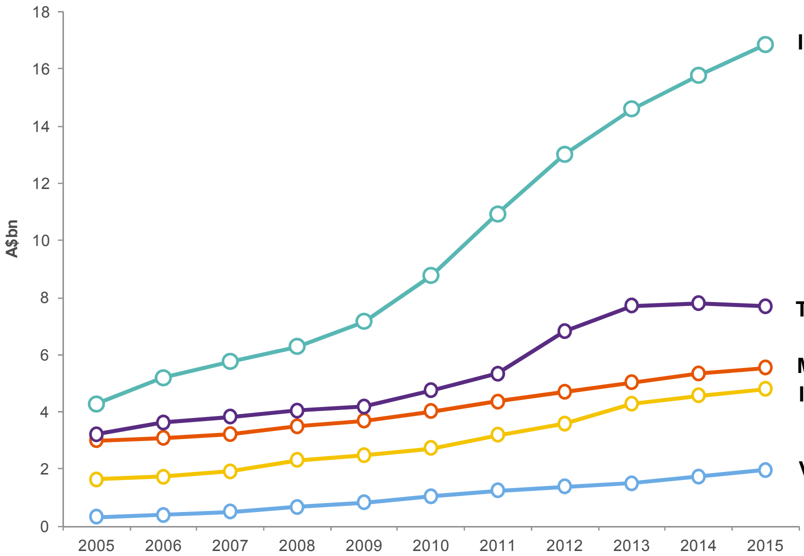
Asia represents an important source of long term growth for IAG. This is being pursued through five targeted markets in the region: Thailand, Malaysia, India, Vietnam and Indonesia. IAG has established a presence in each of these countries.

The substantial growth opportunity in Asian general insurance is based on:

- The region housing the largest and one of the fastest-growing populations around the globe;
- Asia being expected to represent nearly 60% of global middle class consumption by 2030. Middle classes are a critical driver of growth with greater income elasticity for goods and services; and
- Relatively low insurance penetration rates compared to more developed regions of the world.

Substantial regional growth prospects, based on burgeoning middle class consumption and increased insurance penetration

TARGET MARKET GWP GROWTH SINCE 2005



	2015 GWP	10yr CAGR
India	$16.8b	14.7%
Thailand	$7.7b	9.1%
Malaysia	$5.5b	6.3%
Indonesia	$4.8b	11.4%
Vietnam	$2.0b	19.5%

Source: Swiss Re Sigma World Insurance Annual Report, AXCO, IMF, IAG analysis

8. ASIA

IAG's target markets in Asia have tripled in size since 2005, with combined GWP of approximately $37bn in 2015. This is projected to more than triple again by 2030, by which time an addressable GWP pool of over $130bn is anticipated.

The compilation of IAG's Asian presence is based around three key tenets:

- Effective market entry – a disciplined and structured approach, targeting high growth and regionally significant markets;
- Local partnering – identification of local partners aligned to IAG's aspirations and with a strong brand, customer base and distribution footprint. IAG appointees occupy key positions in each joint venture; and
- Capability transfer – IAG brings value-add through capability transfer across the insurance process chain.

With a presence established in all target markets, the future expansion and development of IAG's regional footprint will be characterised by:

- Participation in the strong organic growth prospects presented by each market;
- Pursuit of industry consolidation opportunities, where appropriate;
- Ownership dial-up, where available (e.g. India, and potentially Malaysia);
- Entry into local partnerships (e.g. Indonesia);
- Pursuit of adjacent business opportunities (e.g. takaful); and
- Improved returns on the back of progressively increased scale and maturity of constituent operations.

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 recent capital raising, and the investment in Bohai has been transferred to IAG's shareholders' funds investment portfolio with effect from 1H16.

Investment in Bohai (China) transferred to shareholders' funds

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.

Sound progress towards long term goals

As at 31 December 2015, IAG's investment in Asia is $776m, of which $625m is in the established and profitable markets of Thailand and Malaysia. At 30 June 2015 the equivalent figure was $893m, with the decrease since then largely reflecting the exclusion of Bohai in China, which has been reclassified as a shareholders' funds investment.

The division contributed a total profit of $10m in 1H16, including shares of associates. This compares to a $17m profit in 1H15, 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; and
- An unfavourable movement in mark-to-market valuations of investments, including those within associates' shareholders' funds.

In 1H16, Asia represented 6.4% of the Group's GWP on a proportional basis, after the exclusion of Bohai. The comparable figure for FY15 was 6.1%.

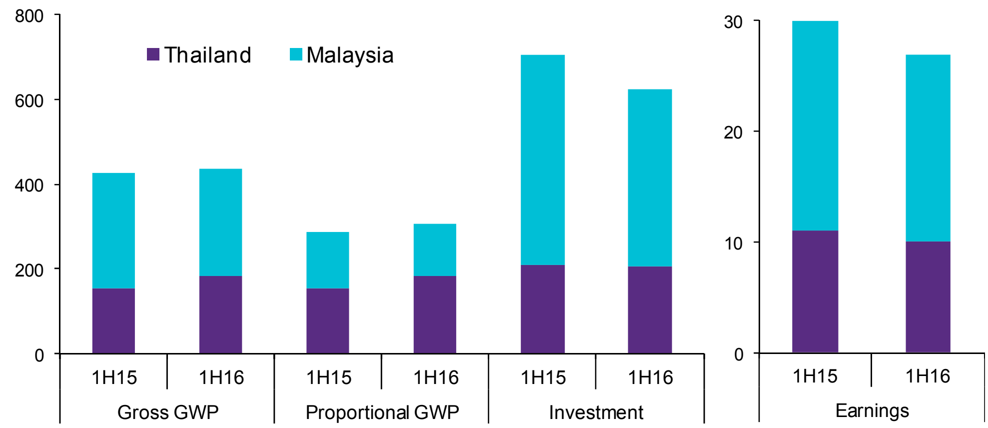
8. ASIA

Proportional GWP in Asia amounted to $371m in 1H16, an increase of 11.7% over 1H15, after allowing for Bohai. This reflects:

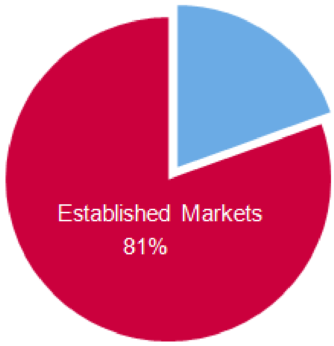
- Sound growth in Thailand, from continued focus on the used car segment, amplified by a favourable foreign exchange translation effect;
- Competitive pressures in Malaysia amid declining new car sales;
- Continuing strong growth in India;
- Steady like-for-like growth in Vietnam, on improving economic conditions; and
- First-time inclusion of GWP from the small business acquired in Indonesia towards the end of FY15.

IAG participates in a gross regional annualised GWP pool of approximately $1.3bn.

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.78% 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 third largest motor insurer in Thailand on the back of a strong reputation for customer service.

Operating Performance

The Thai business reported GWP growth of 19% in 1H16, comprising local currency growth of 6% and a highly favourable foreign exchange translation effect. The local currency GWP movement reflects the combined effect of:

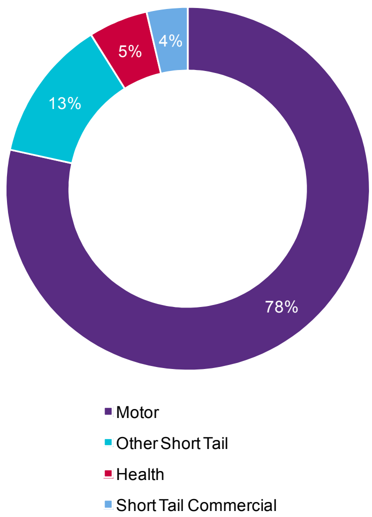
- The business' increased focus on the used car market through agency and broker channels;
- Strengthening renewal retention; and
- An offsetting sustained softening of rates in the commercial motor and property segments.

The Thai business reported a similar insurance margin of 8.1% (1H15: 8.3%), which was driven by:

- Higher claim frequency, particularly as a result of the floods in Central Thailand in August 2015;

Sound local currency GWP growth in Thailand

SAFETY – 1H16 GWP BY CLASS



8. ASIA

- Slightly higher prior period reserve releases; and
- Weaker investment income on technical reserves, reflecting the low interest rate environment.

Investment income on technical reserves in 1H15 included a favourable foreign exchange impact flowing from the hedge associated with reinsurance recoveries, with a corresponding negative effect in the net claims expense, resulting in no net impact to the insurance margin. The corresponding effect in 1H16 was negligible.

The Thai business reported a slightly lower insurance profit of $10m, compared to $11m in 1H15. Following the allocation of regional support and development costs, Thailand's profit contribution was $5m (1H15: $8m).

SAFETY	1H15		2H15		1H16	
FINANCIAL PERFORMANCE	฿m	A$m[1]	฿m	A$m[1]	฿m	A$m[1]
Gross written premium	**4,462**	**155**	**4,621**	**179**	**4,730**	**184**
Net earned premium		**132**		**153**		**124**
Net claims expense		(82)		(103)		(72)
Commission & underwriting expenses		(46)		(51)		(43)
Investment income on technical reserves		7		5		1
Insurance profit		**11**		**4**		**10**
Insurance Ratios						
Loss ratio		62.1%		67.3%		58.1%
Expense ratio		34.8%		33.3%		34.7%
Combined ratio		96.9%		100.6%		92.8%
Insurance margin		8.3%		2.6%		8.1%

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

Market Environment, Regulation and Reform

The long term outlook for Thailand remains positive. The Thai economy has progressed from the modest advance achieved in 2014, and is expected to achieve growth in excess of 2.5% in calendar 2015, with further improvement to around 3% in 2016. While the manufacturing sector remains weak, consumer sentiment has improved as the government's stimulus package, embracing accelerated public infrastructure projects and medium term reforms aimed at boosting the country's competitiveness, begins to have positive effects.

The General Insurance Association anticipates the industry will have grown by 2% in calendar 2015, on the back of the government's economic stimulus spending to boost consumption. The industry continues to face slower car sales and weak mortgage demand, alongside tougher competition and price cutting amongst insurers. Higher industry growth of around 3.5% is anticipated in 2016.

The Office of Insurance Commission intends to strengthen the insurance industry's regulatory framework in order to sharpen the competitiveness of the sector. This includes improving industry regulations, such as developing a new Marine Insurance Act and collaborating with regional insurance regulators to facilitate expansion in nearby markets under the ASEAN Economic Community framework.

Higher industry growth anticipated in 2016, assisted by economic stimulus measures

8. ASIA

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 the largest motor insurer in Malaysia following the 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, despite challenging top line

Operating Performance

AmGeneral's 1H16 GWP contracted by 7.4% to $252m (IAG's share being approximately $123m), compared to 1H15 ($272m). In local currency terms the reduction was 4.4%, an improvement on the trend experienced in FY15.

AmGeneral's GWP performance reflected:

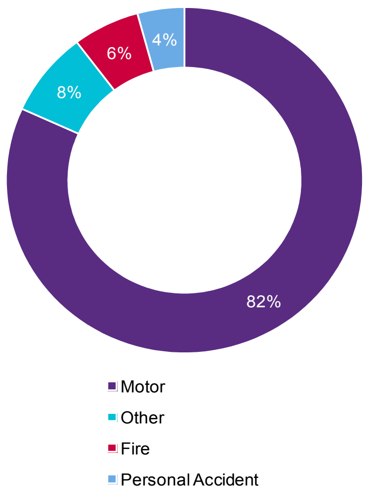
- Intense competition in the motor segment;
- Stagnant growth in the bancassurance channel, following a reduction in AmBank's automotive loan business; and
- Lower automobile sales and private consumption as consumers adjust to the Goods and Services Tax (GST) which was implemented in April 2015.

AmGeneral has continued to improve its distribution and customer service proposition in addressing its competitive market positioning. Initiatives include:

- Development of digital capabilities to improve renewal retention performance, including digital agency portal services to increase agency engagement;
- Launching new and enhanced products with digital functionality aimed at strengthening customer and channel relationships; and
- Revision of pricing strategies and introduction of 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 – 1H16 GWP BY CLASS



AMGENERAL FINANCIAL PERFORMANCE	1H15 RMm	1H15 A$m	2H15 RMm	2H15 A$m	1H16 RMm	1H16 A$m
Gross written premium	**792**	**272**	**772**	**272**	**757**	**252**
Net earned premium	**740**		**715**		**714**	
Net claims expense	(454)		(454)		(460)	
Commission & underwriting expenses	(208)		(201)		(197)	
Investment income on technical reserves	63		72		57	
Insurance profit	**141**		**132**		**114**	
Net profit after tax	**112**		**119**		**103**	
Net profit after tax - IAG's share (49%)	**55**	**19**	**58**	**20**	**51**	**17**
Insurance Ratios						
Loss ratio	61.4%		63.5%		64.4%	
Expense ratio	28.1%		28.1%		27.6%	
Combined ratio	89.5%		91.6%		92.0%	
Insurance margin	19.1%		18.5%		16.0%	

8. ASIA

AmGeneral recorded a lower insurance margin of 16.0% in 1H16 (1H15: 19.1%). This reflects the combination of:

- A higher loss ratio of 64.4% (1H15: 61.4%), but in line with expectations, owing to less favourable prior period reserve releases from the motor bodily injury portfolio; and
- Non-claimable input tax expenses associated with GST implementation.

In October 2015, AmGeneral paid a final ordinary dividend of approximately $48m (IAG's share being $23m).

Market Environment, Regulation and Reform

Recent slowing in economic growth, but remaining at a sound level

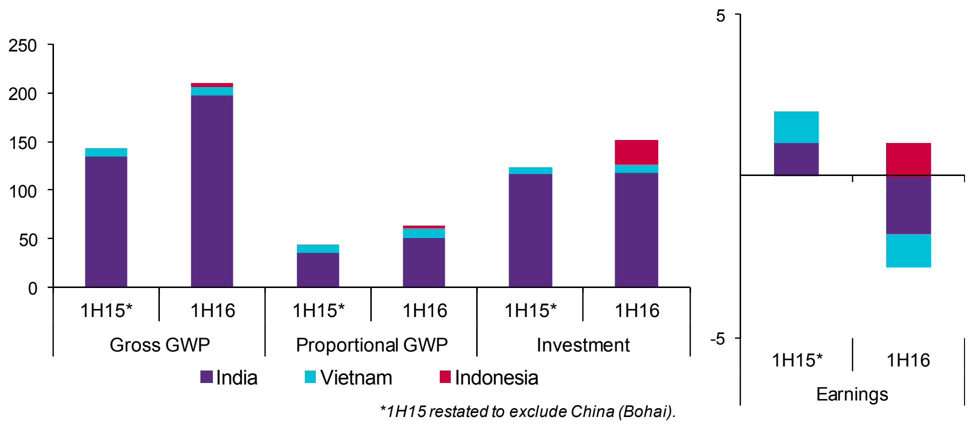
The Malaysian economy is expected to have grown by nearly 5% in calendar 2015, supported by an increase in domestic demand and a pick-up in exports due in part to the lower value of the ringgit. Some recent slowing in consumer demand has been evident, exacerbated by the introduction of the GST, with the government projecting GDP growth of 4-5% in 2016.

The Malaysian general insurance industry is expected to have grown at a slower rate of 3-3.5% in calendar 2015, reflecting softer consumer sentiment on the back of the weakened ringgit, GST implementation and the downtrend in oil prices. Improved industry growth of 4-5% is expected in 2016, but with personal lines continuing to experience a challenging environment.

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 companies under separate licences. New regulatory capital treatment is likely to spur further consolidation opportunities in the industry.

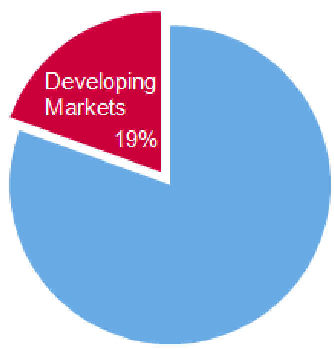
The general insurance industry is proactively engaging with the central bank in ongoing regulatory developments as the country transitions to a liberalised market in 2016, when motor insurance and fire premiums will be detariffed. AmGeneral is well-advanced in its preparation for the tariff reform.

DEVELOPING MARKETS (A$M)



*1H15 restated to exclude China (Bohai).

% ASIAN INVESTMENT



INDIA

Market Presence

Ownership dial-up process commenced

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

8. ASIA

access to SBI's extensive bancassurance channel. 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%.

Strong GWP growth from SBI General, driven by motor and health

Operating Performance

SBI General has continued to grow strongly, generating 1H16 GWP equivalent to $197m (IAG's 26% share being approximately $51m), an increase of 47% over 1H15. Local currency GWP growth was nearly 29%.

GWP growth in 1H16 was led by motor business distributed through motor dealers, as well as health insurance which has gained increased traction through the bancassurance channel.

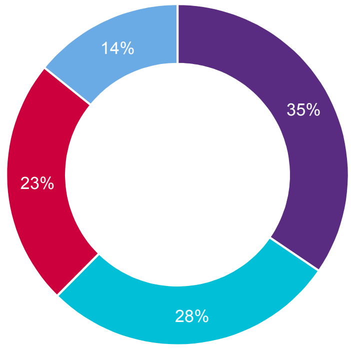
SBI General's market share has grown to nearly 2%, and it has climbed to the position of thirteenth largest general insurer in India.

SBI General reported a small loss in 1H16, of which IAG's share was approximately $2m. This outcome comprised the net effect of:

- A lower loss ratio, despite the high claim volumes arising from the flooding in Chennai and southern India in 1H16;
- A slightly improved expense ratio on the back of strong premium growth; and
- Lower investment income due to a less favourable mark-to-market bond revaluation in both technical reserves and shareholders' funds.

At the end of 1H16, SBI General had 71 products in the market, 81 dedicated branches across India and over 2,400 employees.

SBI GENERAL – 1H16 GWP BY CLASS



SBI GENERAL FINANCIAL PERFORMANCE	1H15 ₹'m	1H15 A$m	2H15 ₹'m	2H15 A$m	1H16 ₹'m	1H16 A$m
Gross written premium	**7,250**	**134**	**9,415**	**188**	**9,336**	**197**
Net earned premium	**4,433**		**5,122**		**6,004**	
Net claims expense	(3,839)		(4,281)		(4,938)	
Commission & underwriting expenses	(2,058)		(2,713)		(2,770)	
Investment income on technical reserves	1,101		738		1,049	
Insurance (loss)	**(363)**		**(1,134)**		**(655)**	
Net profit/(loss) after tax	**142**		**(845)**		**(330)**	
Net profit/(loss) after tax - IAG's share (26%)	**37**	**1**	**(220)**	**(5)**	**(86)**	**(2)**
Insurance Ratios						
Loss ratio	86.6%		83.6%		82.2%	
Expense ratio	46.4%		53.0%		46.1%	
Combined ratio	133.0%		136.6%		128.3%	
Insurance margin	(8.2%)		(22.1%)		(10.9%)	

Market Environment, Regulation and Reform

The Indian economy has seen an acceleration in growth, with the government expecting a GDP increase of 7.6% for the fiscal year ending 31 March 2016, on stronger domestic demand. The manufacturing and services sectors have performed well, whereas the farming sector has been held back by the impact of the drought.

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

8. ASIA

The medium to long term growth prospects for the general insurance market in India remain strong. The industry grew by 13% in the first eight months of its fiscal year ending 31 March 2016, assisted by an improvement in domestic demand and lower interest rates. The industry is targeting growth of 18% in fiscal year 2016, supported by a low insurance penetration rate, rising consumer income, government expenditure on infrastructure projects, an improving real estate market and increasing awareness of health insurance.

The regulatory framework continues to develop, incorporating reforms conducive for growth in the insurance industry to support the amendment of the Insurance Act in March 2015. Further initiatives include:

- A restructured General Insurance Council formed by professional representatives from the industry to operate as a self-regulatory organisation;
- More stringent disclosure requirements aimed at curbing discounting practices in fire and group health insurance segments;
- Allowing point of sales personnel to sell motor (comprehensive and third party), personal accident, home and travel insurance to facilitate industry growth; and
- The insurance regulator setting up a seven-member committee to seek increased transparency in payouts made to automotive dealers for referring motor insurance business to insurers.

VIETNAM

Small loss from AAA Assurance

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.

Operating Performance

AAA Assurance recorded a loss of $1m in 1H16, compared to a profit of $1m in both 1H15 and 2H15. The weaker result was derived from the combination of:

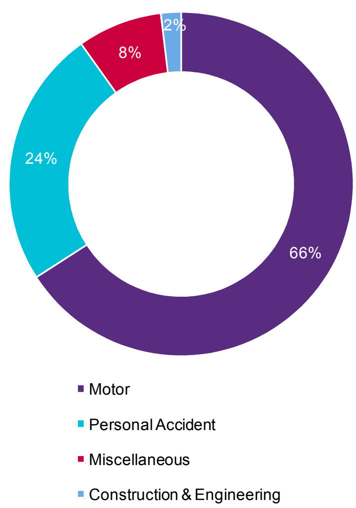
- An increase in the loss ratio to 25.1% (1H15: 16.8%), in line with the higher mix of motor business and a significantly reduced loan protection business which carries a low expected loss ratio; and
- A higher expense ratio due to increased acquisition costs to pursue growth.

FY15 benefited from the earnings contribution associated with the run-off of a loan protection portfolio with a former bank partner. The decision to withdraw distribution under this arrangement was made at the end of the first quarter of FY15, on future profitability grounds.

AAA Assurance recorded a decline in local currency GWP of 15% compared to 1H15, owing to the cessation of the loan protection insurance distribution agreement. GWP was nearly 27% higher than 2H15, reflecting renewed focus on driving motor sales through key branches.

A new development plan for the business is being pursued, to develop a sustainable growth model. This includes rationalisation of the existing extensive branch footprint to reduce its cost base and pursuing selective growth in profitable segments, including the roll-out of a dealer model and increased cross-selling in existing bancassurance relationships.

AAA ASSURANCE – 1H16 GWP BY CLASS



8. ASIA

AAA ASSURANCE FINANCIAL PERFORMANCE	1H15 ₫m[1]	1H15 A$m[1]	2H15 ₫m[1]	2H15 A$m[1]	1H16 ₫m[1]	1H16 A$m[1]
Gross written premium	**174,455**	**9**	**116,748**	**9**	**147,946**	**9**
Net earned premium	**245,014**	**12**	**148,990**	**12**	**136,928**	**8**
Net claims expense	(41,205)	(2)	(33,997)	(3)	(34,326)	(2)
Commission & underwriting expenses	(187,402)	(9)	(115,143)	(9)	(131,080)	(7)
Investment income on technical reserves	7,155	0	6,895	1	5,289	0
Insurance profit/(loss)	**23,562**	**1**	**6,745**	**1**	**(23,189)**	**(1)**
Loss ratio	16.8%		22.8%		25.1%	
Expense ratio	76.5%		77.3%		95.7%	
Combined ratio	93.3%		100.1%		120.8%	
Insurance margin	9.6%		4.5%		(16.9%)	

[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 6.5% in the first nine months of 2015, and a similar outcome is expected for the full calendar year. This would represent the strongest growth rate in eight years, and is expected to be repeated in 2016.

Growth is being driven by rising direct foreign investment and a recovery in domestic demand. In addition, the government is taking steps to improve the business environment by gradually reforming state-owned enterprises.

The outlook for Vietnam's non-life insurance sector remains positive, driven by a low penetration rate and a growing middle class. Motor represented 31% of industry GWP in the first half of calendar 2015, compared to 28% in 2014, which is significantly lower than most other South East Asian countries. The market continues to be dominated by the underwriting of large-scale industrial/commercial risks in the near term.

Industry GWP grew by 14% in calendar 2015, fuelled by stronger passenger car sales and a recovery in the construction and personal accident sectors as business sentiment improved. The Insurance Association of Vietnam is predicting growth in excess of 18% in 2016.

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 practice 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

Indonesian market entry via Parolamas, acquired in 2H15

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 Indonesia.

8. ASIA

IAG is moving to secure a distribution partnership with a recognised local partner to capitalise on the opportunities presented in a market characterised by low insurance penetration and a growing middle class.

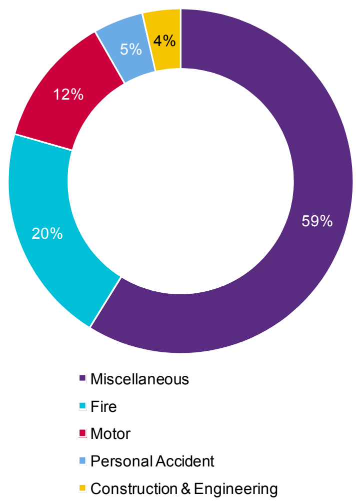
Operating Performance

IAG commenced consolidation of Parolamas' results from May 2015. In 1H16, Parolamas reported GWP of $4m and a small profit.

PT ASURANSI PAROLAMAS FINANCIAL PERFORMANCE	1H16 Rp'm[1]	A$m[1]
Gross written premium	**42,793**	**4**
Net earned premium	**38,497**	**4**
Net claims expense	(7,604)	(1)
Commission & underwriting expenses	(27,818)	(3)
Investment income on technical reserves	5,372	1
Insurance profit	**8,447**	**1**
Loss ratio	19.8%	
Expense ratio	72.3%	
Combined ratio	92.1%	
Insurance margin	21.9%	

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

PAROLAMAS – 1H16 GWP BY CLASS



Defined capability transfer programmes are centred on improving costs and the alignment of business processes to Group standards. Early work has been focused on building the foundations of the business in terms of systems, controls and risk management.

Key operational activities undertaken in 1H16 include:

- Launch of a new policy system in December 2015;
- Improving underwriting and claims controls; and
- Establishing an enterprise risk management framework.

Market Environment, Regulation and Reform

Strong long term industry growth outlook in Indonesia

The Indonesian economy grew by 4.7% in the first nine months of calendar 2015, with the full year outcome likely to fall short of the government's 5.3% target. Growth is being supported by accelerated government spending, partially offset by ongoing weakness in external demand and lower prices for key commodity exports. Independent forecasts suggest GDP growth of nearly 5% in 2016.

The Indonesian general insurance industry grew by 10% in the first nine months 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).

The local industry body has predicted GWP growth of 15-20% in 2016. Marine hull insurance is expected to contribute the highest growth, benefiting from the government's maritime programme boost. More moderate growth in property insurance is expected, while lower automotive sales are expected to weigh on motor insurance growth prospects.

8. ASIA

REGIONAL SUPPORT AND DEVELOPMENT COSTS

Increased regional support focused on delivering operational excellence

Regional support and development expenditure supports 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 and India).

REGIONAL SUPPORT AND DEVELOPMENT COSTS - ALLOCATION	1H15 A$m	2H15 A$m	1H16 A$m
Consolidated operations (Thailand, Vietnam & Indonesia[1])	4	8	7
Associates (Malaysia, India & China[2])	10	10	8
Total regional support and development costs	**14**	**18**	**15**

[1]PT Asuransi Parolamas (Indonesia) was consolidated with effect from May 2015.

[2]Bohai Property Insurance (China) ceased to be treated as an associate from 1H16.

Total regional support and development costs for 1H16 increased slightly to $15m, compared to $14m in 1H15. The division continues to invest in greater capability support, driving an operational excellence strategy and enhancing risk management and governance across the Asian operations, including the recently acquired business in Indonesia. FY16 regional support and development costs are expected to be in line with FY15 ($32m).

OUTLOOK

Stronger proportional GWP growth expected in 2H16

A stronger underlying performance is expected from the overall Asia business in FY16, compared to FY15, as well as higher GWP growth on a proportional basis. Key drivers of growth encompass further penetration in health and commercial products in selected markets and enhanced offerings to customers through digital portals.

Thailand is expected to produce modestly higher GWP in FY16, based on channel diversification and further penetration of the used car market through the agency and broker channels, against a backdrop of a slowing down in the decline of car sales. The business' sound underlying profitability is expected to be maintained.

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

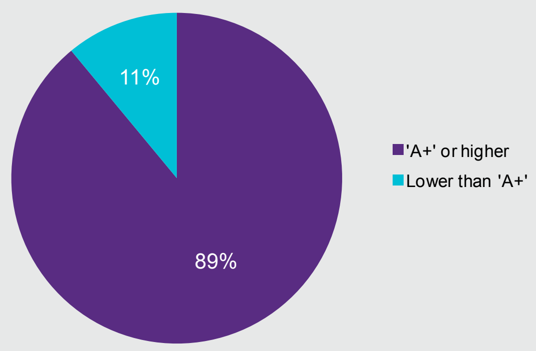
Growth from SBI General in India is expected to be derived from the higher penetration of the motor segment through automotive dealerships, along with the maximisation of opportunities with the bank through deeper penetration of its customer base. Negotiation of the dial-up of IAG's ownership of SBI General to 49% (from 26%) is ongoing.

In Vietnam, developing sustainable growth in AAA Assurance and establishing a secure business continue to take priority. The emphasis in Indonesia will be on securing a distribution agreement with a recognised local partner.

9. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Catastrophe programme renewed 1 January 2016 with similar structure to prior years
- Gross catastrophe cover of up to $7bn, placed to 80% to reflect Berkshire Hathaway quota share
- Group maximum event retention (MER) of $200m at 1 January 2016, post-quota share
- Additional perils cover of $80m in excess of $680m, purchased for FY16
- Innovative solution to major run-off portfolios



REINSURANCE STRATEGY

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

IAG 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.

IAG'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.

IAG'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, in line with local regulatory requirements. IAG's international business units continue to place some facultative reinsurance directly with the external market.

IAG's international captive reinsurers provide considerable input to the reinsurance covers of its interests in Malaysia, India and 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. In the face of a low interest rate environment and the absence of major global catastrophe events, this has promoted a continued flow of capital into the reinsurance market contributing to the growing surplus position. This has resulted in continued favourable rating conditions from a purchaser's perspective, however this environment is expected to stabilise over the coming year.

Reinsurance rating environment is expected to stabilise

QUOTA SHARE AGREEMENT

As part of the strategic relationship with Berkshire Hathaway which was announced on 16 June 2015, IAG 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 earnings volatility and has materially reduced the amount of reinsurance required to be sourced from the third party market, in particular catastrophe cover.

Berkshire Hathaway quota share materially reduces future catastrophe cover needs

9. REINSURANCE

The application of the quota share means that all of IAG's net retentions have 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).

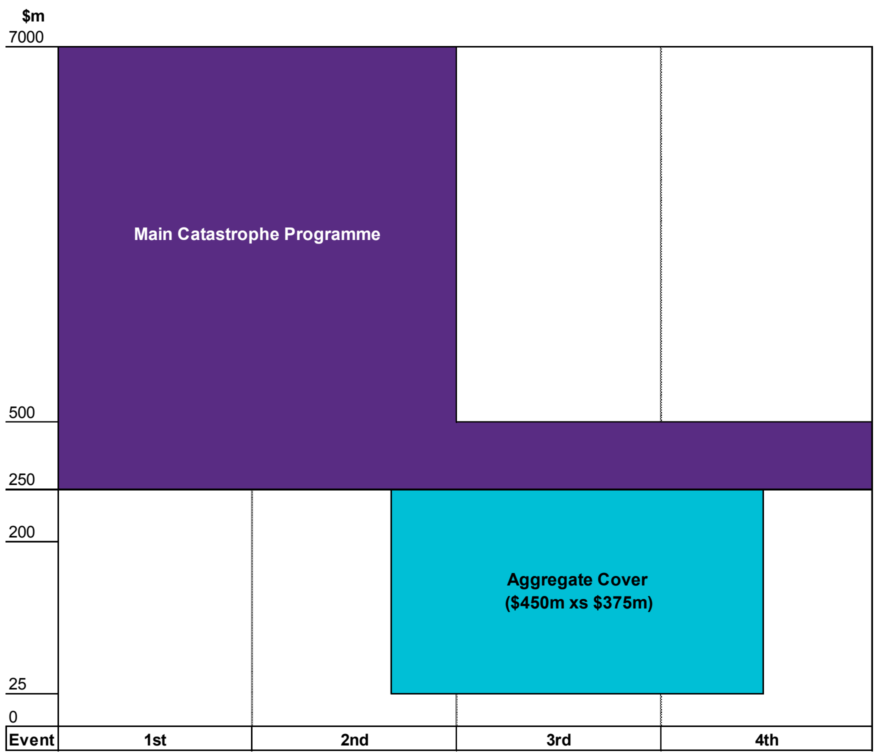
CATASTROPHE COVER

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 operates, with the exception of the Group's joint venture interest in India which has its own reinsurance arrangements.

IAG's catastrophe reinsurance programme for 2016 provides gross reinsurance protection of up to $7bn (2015: $7bn) and has been placed to the extent of 80%, after allowance for the 20% quota share arrangement with Berkshire Hathaway.

IAG's catastrophe reinsurance for 2016 has been constructed in a similar manner to prior years. Gross protection is consistent with IAG's 2015 programme, reflecting a stable overall aggregate exposure, with modest growth in the underlying business offset by reduced exposure to large-corporate property. Renewal rights to IAG's large-corporate property book, which carries a relatively heavy reinsurance requirement, have passed to Berkshire Hathaway.

GROSS CATASTROPHE REINSURANCE – AS AT 1 JANUARY 2016



Gross catastrophe cover of up to $7bn, placed to 80% to reflect quota share

At renewal on 1 January 2016 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to $7bn, including one prepaid reinstatement. IAG retains the first $250m of each loss ($200m post-quota share), with three prepaid reinstatements secured for the lower layer of the main programme ($200m excess of $200m, post-quota share); and

9. REINSURANCE

- An aggregate sideways cover which reduces the cost of a second event to $175m ($140m post-quota share) and a subsequent event to $25m ($20m post-quota share). The aggregate provides protection of $450m excess of $375m ($360m excess of $300m, post-quota share), with qualifying events capped at a maximum contribution of $225m excess of $25m per event ($180m excess of $20m, post-quota share).

The overall credit quality of the 2016 programme is high, with 88.5% (2015: over 89%) placed with entities rated A+ or better.

In addition, IAG has a separate natural perils cover of $80m in excess of $680m (post-quota share), which runs in line with the financial year ending 30 June 2016.

The combination of all catastrophe covers in place at 1 January 2016 results in post-quota share first event retentions of $200m for Australia, NZ$200m for New Zealand, $20m for Thailand, and less than $1m for Vietnam and Indonesia. The first event retention for Malaysia, which is not subject to the Berkshire Hathaway quota share arrangement, is $25m.

MER of $200m, post-quota share

RUN-OFF PORTFOLIO PROTECTION

In February 2016, IAG completed an innovative package of reinsurance transactions with Berkshire Hathaway that materially mitigates the Group's exposure to its two largest run-off portfolios: New Zealand earthquake and asbestos. The transaction comprises:

- An ADC which provides NZ$600m of protection above NZ$4.4bn for the February 2011 Canterbury earthquake event; and
- A loss portfolio transfer and ADC in respect of IAG's asbestos portfolio.

Innovative combined solution to earthquake and asbestos run-off portfolios

IAG's asbestos exposure mainly relates to liability and workers' compensation risks written by CGU in the 1970s and the 1980s. IAG will continue to manage all related claims.

The transaction will result in a substantial release of reserves from the asbestos book. The overall expected pre-tax effect of the transaction is a small net loss, which will be recognised in the Group's net corporate expense line in 2H16.

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect it in all territories in which it underwrites. The majority of these were renewed favourably at 30 June 2015 with placement being secured to 80% to reflect 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

The counter-party credit profiles for IAG's key reinsurances as at 1 January 2016 are:

- 88.5% of limits placed with 'A+' or higher rated entities for the calendar 2016 property catastrophe programme; and
- 98% of limits placed with 'A+' or higher rated entities for the casualty programme.

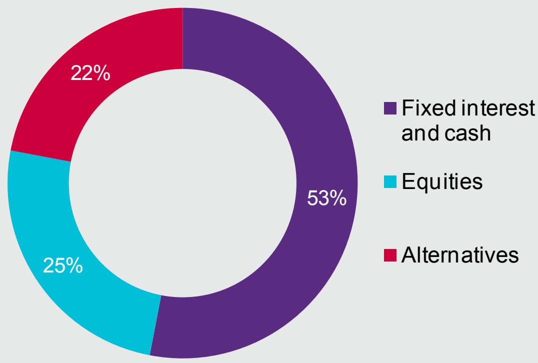
Strong counter-party risk profile maintained

10. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $14bn as at 31 December 2015
- Overall investment allocation remains conservatively positioned
- Technical reserves of $9.7bn all invested in fixed interest and cash
- Shareholders' funds of $4.3bn – growth asset weighting of 47%
- Strong investment return on technical reserves
- Lower shareholders' funds return influenced by weak equity market performance
- Strong credit quality maintained: 80% 'AA' or higher

Shareholders' Funds Mix



INVESTMENT PHILOSOPHY

Technical reserves invested to align with liability interest rate risk

IAG'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 shareholders' funds to maximise the return on risk-based capital, consistent with IAG's risk appetite and flexibility requirements; and
- Invest IAG's assets so that the contribution of investment risk to earnings volatility should not dominate the contribution from insurance risk.

INVESTMENT STRATEGIES

Distinct investment strategies for technical reserves and shareholders' funds

IAG's overall investment allocation remains conservatively positioned, with 85% of total investments in fixed interest and cash as at 31 December 2015. Technical reserves were entirely invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 53%.

An increased 47% allocation to growth assets within shareholders' funds at 31 December 2015 (FY15: 41%) remains within the long term targeted range. Within the growth asset allocation, alternative investments accounted for 22% of shareholders' funds, up from 19% at 30 June 2015. These alternative investments typically display a lower volatility than equities, deliver a higher return than fixed income and increase overall investment diversification.

GROUP INVESTMENT ASSETS

Total investments of $14bn

The Group's investments totalled $14bn as at 31 December 2015, excluding investments held in joint ventures and associates, with nearly 70% represented by the technical reserves portfolio.

The decrease in total investments since 30 June 2015 ($15.5bn) reflects the combined effect of:

- Reduced technical reserves as the 20% 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 ($389m).

10. INVESTMENTS

GROUP INVESTMENT ASSETS	1H15 A$bn	FY15 A$bn	1H16 A$bn
Technical reserves	10.5	11.0	9.7
Shareholders' funds	4.7	4.5	4.3
Total investment assets	**15.2**	**15.5**	**14.0**

ASSET ALLOCATION

Since 30 June 2015, the main change to asset allocation is the higher weighting to growth asset categories within shareholders' funds.

Over 85% of investments in fixed interest and cash

GROUP ASSET ALLOCATION

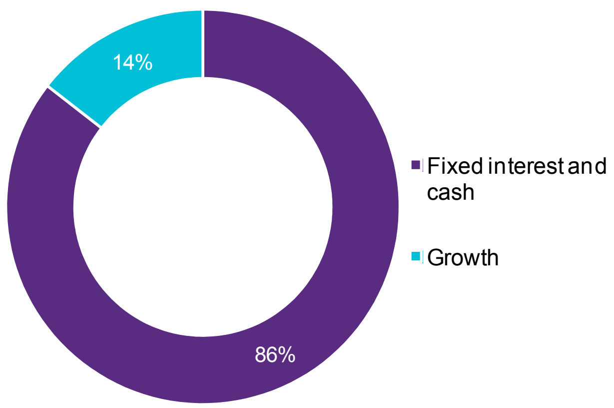
SHAREHOLDERS' FUNDS	1H15 %	FY15 %	1H16 %
Australian equities	12.1	14.1	16.6
International equities	6.3	7.4	8.8
Alternatives	17.8	19.4	22.1
Fixed interest and cash	63.8	59.1	52.5
Total	**100.0**	**100.0**	**100.0**
TECHNICAL RESERVES	**%**	**%**	**%**
Fixed interest and cash	100.0	100.0	100.0
Total	**100.0**	**100.0**	**100.0**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	**%**	**%**	**%**
Australian equities	3.7	4.1	5.1
International equities	2.0	2.1	2.7
Alternatives	5.5	5.6	6.7
Fixed interest and cash	88.8	88.2	85.5
Total	**100.0**	**100.0**	**100.0**

CREDIT QUALITY OF ASSETS

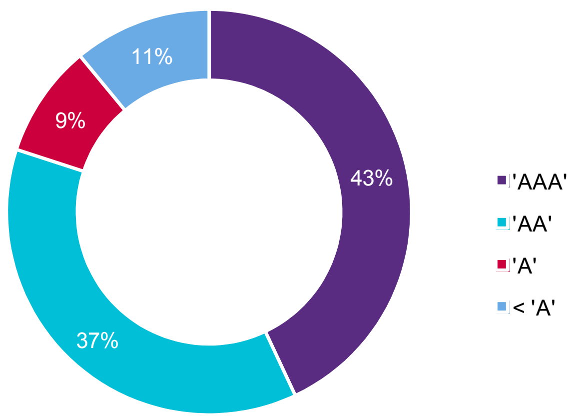
The credit quality of the Group's investment book remains strong, with approximately 80% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality maintained

GROUP ASSET ALLOCATION – 31 DECEMBER 2015



CREDIT QUALITY – 31 DECEMBER 2015



10. INVESTMENTS

SENSITIVITY ANALYSIS

As at 31 December 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 31 DECEMBER 2015	Change in Assumption +1% A$m	-1% A$m
Equity market values:		
Australian equities	7	(7)
International equities	6	(6)
Total equity market sensitivity	**13**	**(13)**
Interest rates:		
Technical reserves	(283)	304
Shareholders' funds	(31)	33
Total interest rate sensitivity	**(314)**	**337**

INVESTMENT PERFORMANCE

Strong return on technical reserves

A strong investment return was achieved on the technical reserves portfolio. Investment income on technical reserves of $174m in 1H16 included:

- An unrealised capital gain of over $30m at period end, with little change in the yield curve since 30 June 2015. The 3-year government bond yield at 31 December 2015 was 2.02%, identical to the position at 30 June 2015;
- A negative impact of $15m from the widening of credit spreads. The equivalent movement in 1H15 was a positive effect of $40m; and
- An adverse foreign exchange impact of $16m, 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 positive effect, of $10m, was recorded in 1H15.

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 return reflected weak local equity market performance

Investment returns on shareholders’ funds were restricted by the weak performance of the Australian equity market in 1H16. The broader Australian index (S&P ASX200 Accumulation) delivered a negative return of 0.5% over the six months to 31 December 2015.

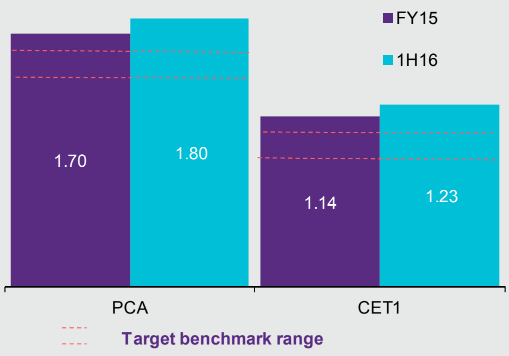
Stronger performances were recorded by international equities and alternative investments.

INVESTMENT INCOME	1H15 A$m	2H15 A$m	1H16 A$m
Technical reserves	427	135	174
Shareholders' funds	137	86	38
Total investment income	**564**	**221**	**212**

11. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Very strong balance sheet and regulatory capital position at 31 December 2015
  - PCA multiple of 1.80 vs. benchmark of 1.4-1.6
  - CET1 multiple of 1.23 vs. benchmark of 0.9-1.1
- Increase in full year dividend policy payout range, to 60-80% of cash earnings
- Capital mix in lower half of targeted range – debt and hybrids 33.4% of total tangible capitalisation
- S&P 'AA-' rating for core operating subsidiaries reaffirmed in June 2015



BALANCE SHEET

	1H15 A$m	FY15 A$m	1H16 A$m
Assets			
Cash and cash equivalents	250	306	310
Investments	15,190	15,535	13,960
Investments in joint ventures and associates	650	561	455
Premium receivable	3,118	3,251	3,058
Trade and other receivables	719	653	636
Reinsurance and other recoveries on outstanding claims	3,761	3,713	4,298
Deferred acquisition costs	994	1,015	996
Deferred reinsurance expense	881	1,823	1,856
Intangible assets	700	671	658
Goodwill	2,895	2,890	2,932
Other assets	1,052	984	1,104
Total assets	**30,210**	**31,402**	**30,263**
Liabilities			
Outstanding claims	12,831	12,687	12,141
Unearned premium	6,105	6,156	6,027
Interest bearing liabilities	1,772	1,762	1,781
Trade and other payables	1,295	1,321	1,233
Other liabilities	1,400	2,458	1,932
Total liabilities	**23,403**	**24,384**	**23,114**
Net assets	**6,807**	**7,018**	**7,149**
Equity			
Equity attributable to holders of ordinary shares	6,583	6,817	6,930
Non-controlling interests	224	201	219
Total equity	**6,807**	**7,018**	**7,149**

Balance sheet movements include quota share effects

The total assets of the Group as at 31 December 2015 were $30,263m compared to $31,402m at 30 June 2015. The reduction of $1,139m includes the net effect of the following notable elements:

- A $1,575m reduction in investments, including payment of the FY15 final dividend of $389m and settlements to Berkshire Hathaway under the quota share arrangement; and

11. BALANCE SHEET & CAPITAL

- A $585m increase in reinsurance and other recoveries, from recognition of amounts recoverable from Berkshire Hathaway under the quota share arrangement and increased recoveries in respect of the September 2010 earthquake event in New Zealand.

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 31 December 2015 were $23,114m, compared to $24,384m at 30 June 2015. The decrease of $1,270m includes:

- A $546m reduction in claims payable, embracing strong progress in the settlement of Canterbury earthquake-related liabilities, partially offset by the additional strengthening in respect of the September 2010 event; and
- A $526m reduction in other liabilities, driven by tax payments, settlement of trade creditors and reduced employee provisions.

The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unitholders' funds held by external holders of units in IAG-controlled trusts, reinsurance premium payable and other provisions and liabilities.

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

- Retained earnings from a sound operating performance in 1H16; and
- Payment of the 16 cents per share dividend declared in respect of 2H15 ($389m).

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 31 December 2015 stood at $3,590m, up from $3,561m at 30 June 2015, comprising $2,932m of goodwill (FY15: $2,890m) and $658m of other intangible assets (FY15: $671m). Amortisation in the period was countered by foreign exchange movements.

CAPITAL

Capital Adequacy

IAG remains strongly capitalised, with regulatory capital of nearly $5bn at 31 December 2015.

IAG is strongly capitalised

At 31 December 2015, IAG's Prescribed Capital Amount (PCA) multiple was 1.80, compared to a targeted benchmark of 1.4 to 1.6 times. This has increased from the 1.70 multiple reported at 30 June 2015, owing to the net effect of:

- The Group's sound operating earnings performance in 1H16;
- Payment of the 2H15 dividend of 16 cents per share; and
- A favourable impact from the Berkshire Hathaway quota share arrangement of approximately 10bps.

It remains IAG's expectation that the quota share will have a favourable effect on its regulatory capital requirement of approximately $400m in FY16 and $700m over a 3-4 year period, based on the mid-point of the targeted benchmark range.

Favourable quota share effect on regulatory capital progressively emerging

At 31 December 2015 the Group's Common Equity Tier 1 (CET1) ratio was 1.23 times the PCA, compared to a targeted range of 0.9 to 1.1 times. The regulatory requirement is 0.6 times.

11. BALANCE SHEET & CAPITAL

After allowance for the 1H16 interim and special dividends, of 23 cents per share in total which will be paid at the end of March 2016, the PCA multiple at 31 December 2015 would remain above IAG's benchmark range, while the CET1 multiple would exceed the mid-point of the equivalent target range.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H15 A$m	FY15 A$m	1H16 A$m
Common Equity Tier 1 Capital (CET1)			
Ordinary shares	6,775	7,275	7,275
Reserves	102	(38)	(18)
Retained earnings	(208)	(337)	(283)
Technical provisions in excess of liabilities	921	748	816
Minority interests	224	201	219
Less: Deductions	(4,773)	(4,637)	(4,628)
Total Common Equity Tier 1 Capital	**3,041**	**3,212**	**3,381**
Additional Tier 1 Capital			
Hybrid equities	817	762	762
Total Tier 1 Capital	**3,858**	**3,974**	**4,143**
Tier 2 Capital			
Subordinated term notes	876	811	811
Total Tier 2 Capital	**876**	**811**	**811**
Total Regulatory Capital	**4,734**	**4,785**	**4,954**
Prescribed Capital Amount (PCA)			
Insurance risk charge	1,560	1,500	1,418
Insurance concentration risk charge	250	200	200
Diversified asset risk charge	1,502	1,489	1,502
Aggregation benefit	(739)	(715)	(702)
Operational risk charge	345	343	341
Total Prescribed Capital Amount	**2,918**	**2,817**	**2,759**
PCA multiple	**1.62**	**1.70**	**1.80**
CET1 multiple	**1.04**	**1.14**	**1.23**

Interest Bearing Liabilities

The Group's interest bearing liabilities stood at $1,781m at 31 December 2015, compared to $1,762m at 30 June 2015. There were no changes in composition over the period.

No changes to debt mix in 1H16

INTEREST BEARING LIABILITIES	1H15 A$m	FY15 A$m	1H16 A$m
Subordinated debt	852	841	858
Convertible Preference Shares	377	377	377
Reset Exchangeable Securities	550	550	550
Capitalised transaction costs/other	(7)	(6)	(4)
Total interest bearing liabilities	**1,772**	**1,762**	**1,781**

11. BALANCE SHEET & CAPITAL

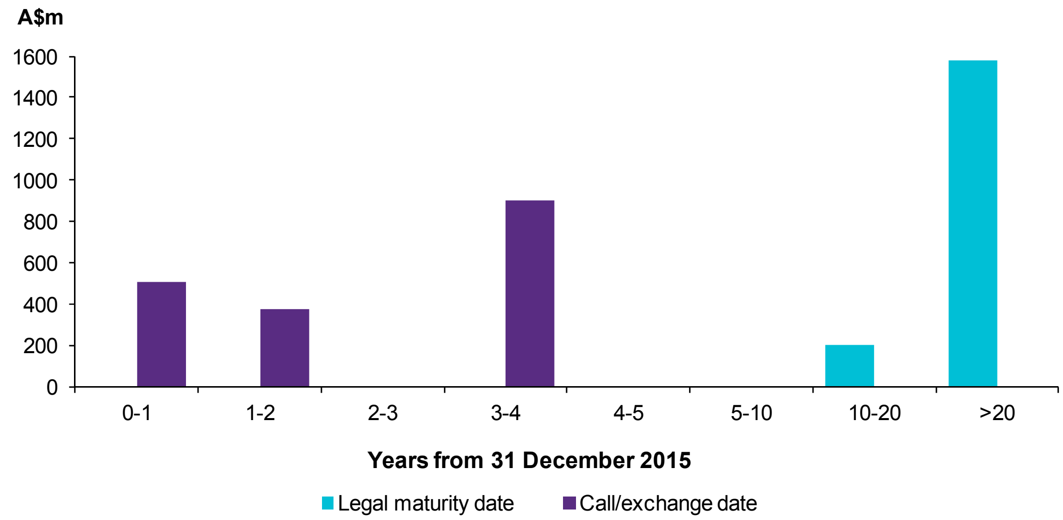
GROUP DEBT & HYBRID CAPITAL	Principal amount m	A$m	Yield (net of swaps) %	Rate	First Call or Exchange date	S&P rating
Subordinated term notes[1]	A$350	350	5.16%	Variable	Mar-19	'A-'
Subordinated fixed rate notes	£100	203	5.63%	Fixed	Dec-16	'BBB+'
Subordinated fixed rate bonds	NZ$325	305	7.50%	Fixed	Dec-16	'BBB+'
Total Debt		**858**				
Convertible Preference Shares (IAGPA)[2]	A$377	377	4.31%	Variable	May-17	'N/R'
Reset Exchangeable Securities (IANG)[3]	A$550	550	4.46%	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



Capital Management

It remains IAG's intent to manage its capital position broadly in line with its stated benchmark ranges, at both the PCA and CET1 levels.

IAG expects to remain in a strong capital position at the end of FY16, based on the combination of:

- Further reduction in regulatory capital requirement owing to the ongoing effect of the quota share arrangement with Berkshire Hathaway;
- Limited demand for capital in IAG's core markets of Australia and New Zealand as a result of modest short term organic growth prospects; and
- An expected continuation of the Group's sound operating earnings performance, in line with the guidance presented for FY16; offset by:
- A substantial combined interim and special dividend payment;
- An increase in required regulatory amortisation of debt and hybrid instruments on 1 January 2016 of approximately $120m; and
- A modest effect from the run-off portfolio reinsurance initiative.

In recognition of the strong capital position already in place, IAG has:

- Revised its full year dividend payout policy to 60-80% of cash earnings, up from 50-70% of cash earnings, with effect from FY16; and
- Announced a fully franked special dividend of 10 cents per share.

Long term intent to manage capital in line with benchmark targets

Dividend payout ratio increased to 60-80% of full year cash earnings

11. BALANCE SHEET & CAPITAL

Future capital management measures will be pursued when appropriate, making allowance for any specific known capital demands, with all alternative means given consideration.

In addition, IAG intends to refinance a significant proportion of its debt and hybrid capital in the short to medium term, via the issue of new instruments. This process is expected to commence in calendar 2016, with any new issuance being fully compliant with APRA's LAGIC regime.

As at 31 December 2015, IAG's pre-LAGIC debt and hybrid instruments had incurred accumulated amortisation of nearly $230m, from an allowable regulatory capital perspective, prior to the additional amortisation of $120m incurred on 1 January 2016.

Capital Mix

Capital mix in lower half of targeted range

IAG 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 remains 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% of total tangible capitalisation.

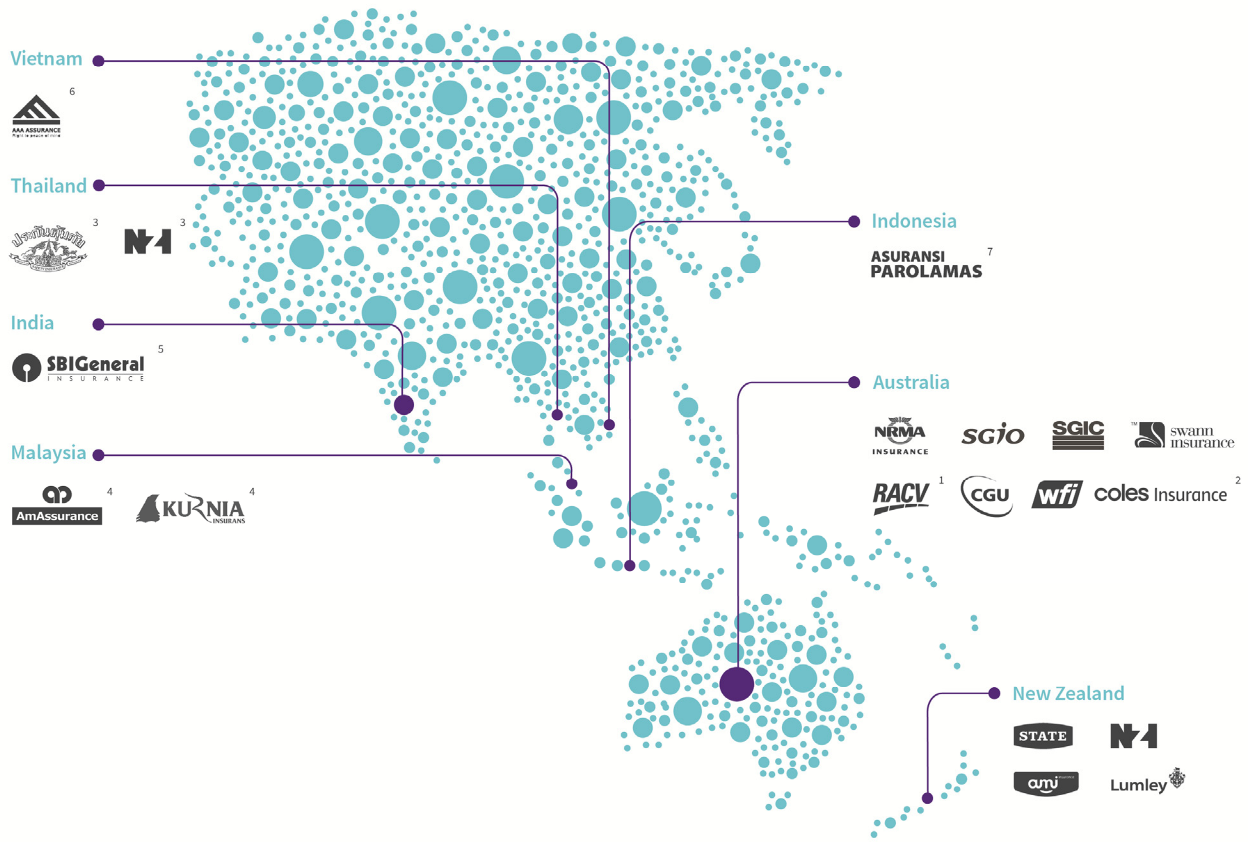
CAPITAL MIX	1H15 A$m	FY15 A$m	1H16 A$m
Shareholder equity	6,807	7,018	7,149
Intangibles and goodwill	(3,595)	(3,561)	(3,590)
Tangible shareholder equity	**3,212**	**3,457**	**3,559**
Interest bearing liabilities	1,772	1,762	1,781
Total tangible capitalisation	**4,984**	**5,219**	**5,340**
Debt to total tangible capitalisation	**35.6%**	**33.8%**	**33.4%**

Credit Ratings

On 21 August 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



100%-owned unless indicated.

1. IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.
2. IAG owns 100% of WFI Insurance Ltd (WFI), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with WFI.
3. IAG holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.
4. IAG owns 49% of the general insurance arm of Malaysia-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 63.17% of AAA Assurance Corporation, based in Vietnam.
7. IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.

All ownership percentages are as at 31 December 2015.

APPENDIX B IAG BUSINESS SNAPSHOT

CONSUMER DIVISION

Consumer Division products are sold in Australia 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.

The Consumer Division 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)

BUSINESS DIVISION

Business Division products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. The Business Division 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.

The Business Division 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

IAG's 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.

New Zealand also offers travel insurance, which is underwritten by a third party.

Short tail insurance

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

Long tail insurance

- Personal liability
- Income protection
- Commercial liability

APPENDIX B IAG BUSINESS SNAPSHOT

ASIA

IAG's Asia division comprises interests in five 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;
- 63.17% of AAA Assurance Corporation in Vietnam; and
- 80% of PT Asuransi Parolamas in Indonesia.

While IAG retains a diluted 16.9% interest in Bohai Property Insurance Company Ltd, based in China, from 1H16 this investment is included in IAG's shareholders' funds investment portfolio and is no longer being treated as an equity-accounted associate in the Asia division.

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, which commenced 1 July 2015; and
- A $500m equity placement to Berkshire Hathaway, which represented approximately 3.7% of IAG's expanded issued capital at the point of issue in June 2015.

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 Consumer 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, the Consumer Division underwrites car and home products for Coles Insurance.

APPENDIX C KEY RELATIONSHIPS

ASIA

AMBANK GROUP

Established in August 1975, AmBank Group is one of the largest banking groups in Malaysia. The Group comprises AMMB Holdings Berhad, a public listed company on the Main Board of Bursa Malaysia. The Group offers a comprehensive range of both conventional and Islamic financial solutions through its retail banking, wholesale banking, general insurance, life insurance and family takaful businesses.

AmBank Group

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 is a leading motor insurer and among the largest general insurers in Malaysia based on gross written premium. Together with AmBank, a full range of insurance products and services is offered through all customer touch points and channels.

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.

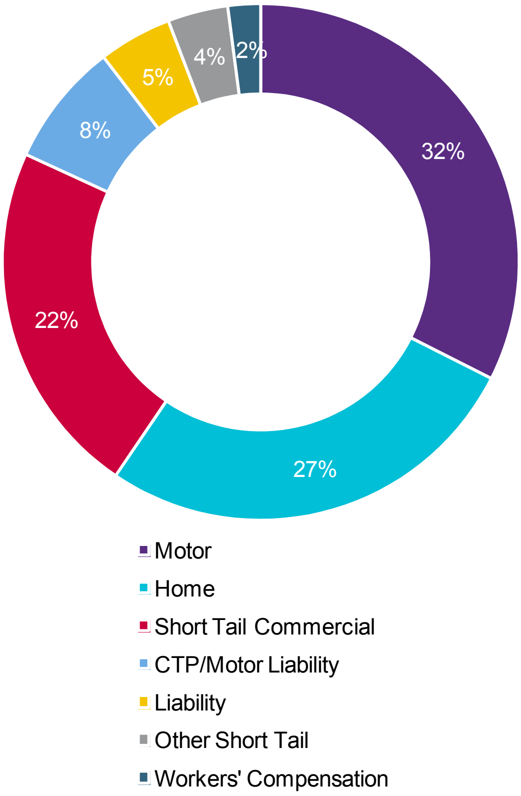
भारतीय स्टेट बैंक
State Bank of India

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. SBI General has an exclusive corporate agency agreement with SBI and all of its five associate banks for general insurance business.

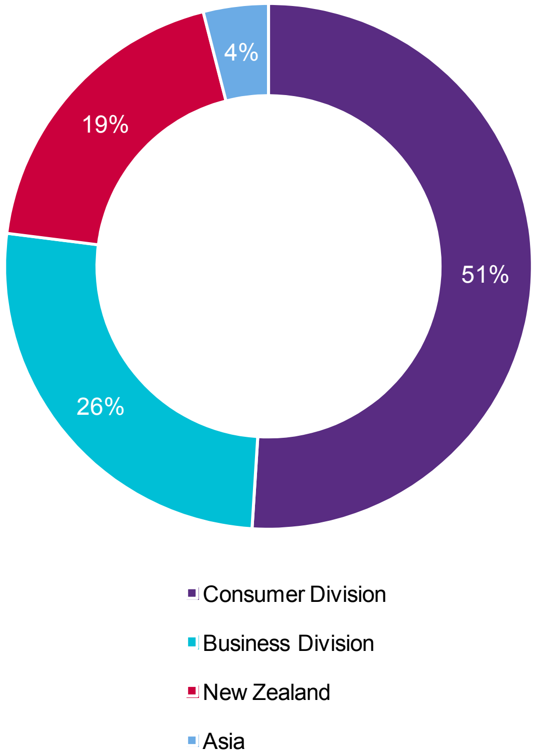
SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49% and has commenced the process to lift it to this level, following the change in the Indian foreign direct investment limit.

APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

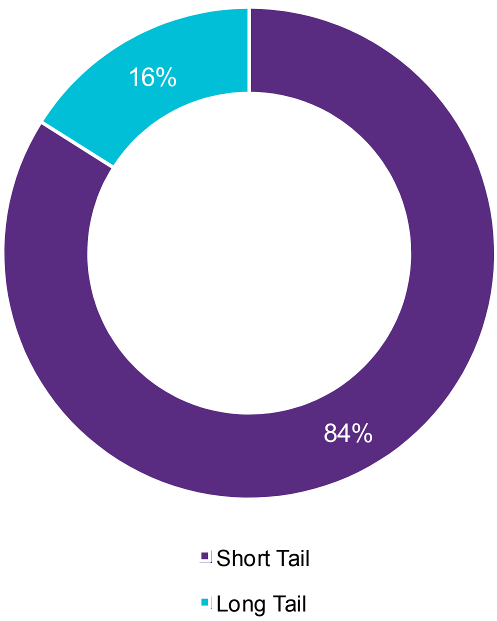
IAG GROUP GWP BY PRODUCT — 1H16



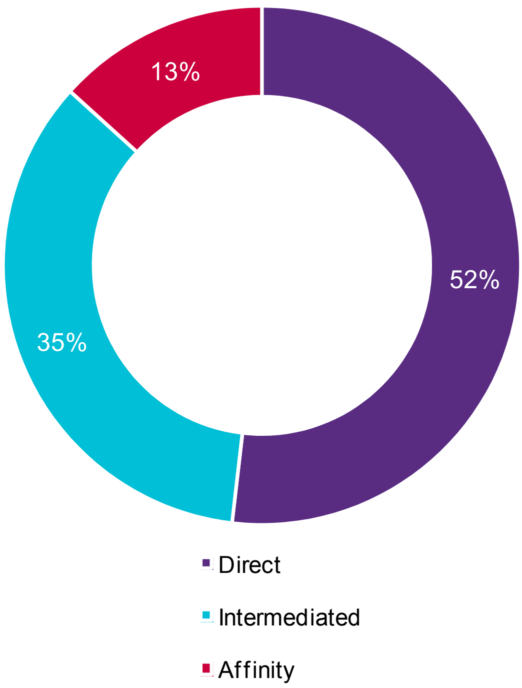
IAG GROUP GWP BY BUSINESS — 1H16



IAG GROUP GWP BY TAIL — 1H16



IAG GROUP GWP BY CHANNEL — 1H16



APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2015 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.

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 is IAG's digital hub for innovation, bringing together a number of existing functions as well as creating some new incubator areas which specifically explore new opportunities across the broader business.

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.

21-AUG-15 **IAG DELIVERS SOUND 2015 RESULT AND CONFIRMS LONG-TERM OUTLOOK**

IAG reported an FY15 insurance profit of $1.1bn, equating to a reported insurance margin of 10.7%. This was considered a sound result in light of a significant increase of $495m in net natural peril claim costs, lower net reserve releases, and a more competitive environment in commercial markets. IAG also reported a strong, but slightly lower, underlying margin of 13.1% and GWP growth of 17%, to $11.4bn. The Board determined to pay a final fully franked dividend of 16 cents per share, bringing the full year dividend to 29 cents per share, representing a cash payout ratio of 70.2%. Updated guidance for FY16 comprised relatively flat GWP growth and a reaffirmed reported insurance margin of 14-16%. IAG's 2015 Annual Report, Annual Review and Corporate Governance Statement were also released.

7-SEP-15 **NOTICE OF ANNUAL GENERAL MEETING**

IAG's Notice of Annual General Meeting was released to the market.

21-SEP-15 **MS YASMIN ALLEN TO RETIRE FROM IAG BOARD**

IAG announced the retirement of Ms Yasmin Allen from the Board, effective 30 September 2015, following 11 years of service.

25-SEP-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 $4.912 per share for the dividend payable on 7 October 2015.

7-OCT-15 **PETER HARMER TO SUCCEED MIKE WILKINS AS IAG CEO**

IAG appointed Peter Harmer as Managing Director and CEO effective 16 November 2015, to replace Mike Wilkins. Mr Harmer joined IAG in 2010 as CEO of CGU and was appointed CEO of IAG Labs in July 2015. IAG Chairman, Brian Schwartz, said that Mr Harmer's track record in creating successful businesses and transforming cultures made him the right person to lead IAG.

15-OCT-15 **IAG UPDATES CHINA STRATEGY**

IAG clarified its position in relation to the investigation of opportunities to participate on a national scale in China. After completing significant work on assessing the opportunities available, IAG determined not to pursue further investment in China.

APPENDIX E KEY ASX RELEASES

21-OCT-15 **IAG ON TRACK FOR FY16 GUIDANCE**

IAG advised shareholders at the Annual General Meeting that it was on track to deliver on its FY16 guidance, based on first quarter trading results.

26-OCT-15 **CHIEF STRATEGY OFFICER LEONA MURPHY TO LEAVE IAG**

IAG announced that Chief Strategy Officer, Leona Murphy, had decided to leave IAG, effective 31 December 2015. Ms Murphy decided to return to Queensland and focus on the next stage of her career as a Non-Executive Director.

27-OCT-15 **IAG APPOINTS MARK MILLINER AS CHIEF OPERATING OFFICER**

IAG announced the appointment of Mark Milliner as IAG Chief Operating Officer, effective mid 2016. Mr Milliner will report to IAG Managing Director and CEO designate, Peter Harmer.

12-NOV-15 **NEW BRAND IDENTITY FOR IAG**

IAG launched a new brand identity as the company differentiates itself in an increasingly competitive market. Incoming IAG Managing Director and CEO Peter Harmer said the new identity better reflected the Group's regional presence and signalled a new phase for the company.

27-NOV-15 **2016 FINANCIAL CALENDAR**

IAG provided details of its financial calendar for 2016.

8-DEC-15 **IAG ANNOUNCES NEW STRUCTURE AND LEADERSHIP TEAM**

IAG announced a new organisational structure and leadership team. The structure, which took effect from 9 December 2015, supports the Group's desire to become a customer-led and data-driven organisation that can adapt quickly to the rapidly changing environment in which businesses now operate.

In Australia, IAG has two customer-facing divisions responsible for sales, service, and brand and marketing execution. The Australian Consumer Division focuses on individuals and families, and the Australian Business Division on businesses of all sizes. Three divisions support the customer-facing divisions:

- Customer Labs, responsible for the customer experience strategy and driving product innovation through data and insights, brand architecture across the Group, and new business incubations and venturing.
- Digital Labs, providing digital and design innovation while identifying and harnessing disruptive technology.
- Operations, responsible for claims and operational functions such as procurement and supply chain management.

IAG's Asia and New Zealand businesses moved into a new International Division which is focused on growing its established presence in Malaysia, Thailand, India, Indonesia and Vietnam; and maintaining its market-leading presence in the mature New Zealand market.

The Group Leadership Team comprises:

- Julie Batch, heading up Customer Labs as Chief Customer Officer.
- Chris Bertuch, remaining Group General Counsel & Company Secretary.
- Ben Bessell, becoming Chief Executive Australian Business Division (CGU, WFI, Lumley and Swann brands).
- Andy Cornish, acting as Chief Operating Officer, leading the Operations Division, until Mark Milliner joins IAG in mid-2016.

APPENDIX E KEY ASX RELEASES

- David Harrington, appointed to the new role of Group Executive, Office of the CEO, responsible for group-wide strategy and corporate development.
- Nick Hawkins, remaining Chief Financial Officer and with additional responsibility for the International Division (Asia and New Zealand) and the ‘challenger’ consumer segment, which includes SGIO, SGIC and Coles Insurance.
- Jacki Johnson, appointed to the new role of Group Executive, People, Performance & Reputation, responsible for people and culture, corporate affairs, shared value and the IAG Foundation.
- Anthony Justice, appointed Chief Executive Australian Consumer Division (NRMA and RACV).
- Claire Rawlins, appointed Group Executive, Digital & Technology, leading Digital Labs.
- Clayton Whipp, remaining Group Risk Officer.
- Duncan Brain, remaining Chief Executive Asia.
- Craig Olsen, appointed Chief Executive New Zealand.

4-JAN-16 **IAG FINALISES 2016 CATASTROPHE REINSURANCE COVER**

IAG finalised its catastrophe reinsurance programme for the calendar year commencing 1 January 2016. The programme provides reinsurance protection up to $7bn and has been placed to the extent of 80%, after allowance for the 20% quota share arrangement with Berkshire Hathaway which commenced on 1 July 2015. The combination of all catastrophe covers in place at 1 January 2016 results in maximum first event retentions, post-quota share, of $200m for Australia, NZ$200m for New Zealand, $20m for Thailand, and less than $1m for Vietnam and Indonesia.

16-FEB-16 **ELIZABETH BRYAN AM APPOINTED IAG CHAIRMAN**

The IAG Board appointed Elizabeth Bryan as its Chairman, effective 31 March 2016. Ms Bryan succeeds Mr Brian Schwartz AM, who announced his intention to retire from the Board at the company’s annual general meeting in October 2015 after seven years as IAG Chairman and 11 years on the IAG Board.

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 writedown 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.
QUOTA SHARE	A form of reinsurance in which an insurer cedes an agreed percentage of every risk it insures that falls within a class or classes of business, subject to a reinsurance treaty.
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.

APPENDIX F GLOSSARY

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.
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.

APPENDIX F GLOSSARY

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 31 December 2015)
- ASX code for Reset Exchangeable Securities: **IANG** (5,500,000 on issue at 31 December 2015)
- ASX code for Convertible Preference Shares: **IAGPC** (3,773,728 on issue at 31 December 2015)

London Stock Exchange:

- LSE code for Fixed Rate Subordinated Notes due 2026: **70QG** (£100.3m outstanding at 31 December 2015)

NZX Limited:

- NZDX code for Unsecured Subordinated Bonds due 2036: **IAGFA** (NZ$325m outstanding at 31 December 2015)

KEY DATES

Interim and special dividends – 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*
Final dividend – ordinary shares	
• Ex-dividend date	5 September 2016*
• Record date	7 September 2016*
• DRP record date	8 September 2016*
• Payment date	5 October 2016*
Payment date for IANG and IAGFA quarterly distributions	15 September 2016
Annual General Meeting	21 October 2016
Payment date for IAGPC dividend	2 November 2016
Payment date for IANG and IAGFA quarterly distributions	15 December 2016
Announcement of half year results to 31 December 2016	15 February 2017*

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

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