INVESTOR REPORT FY16.

19 August 2016

Insurance Australia Group Limited ABN 60 090 739 923

IMPORTANT INFORMATION

This report contains general information in summary form which is current as at 19 August 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.

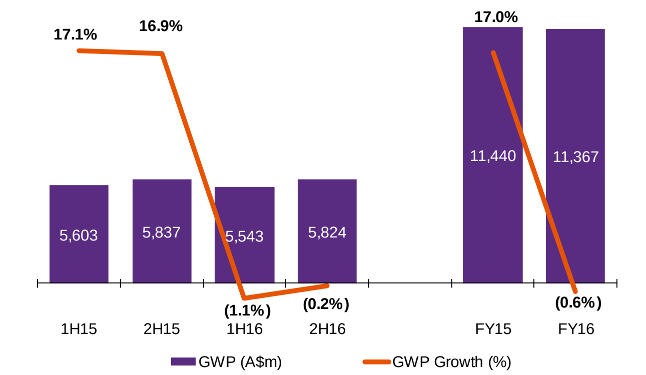
All references starting with "1H" refer to the six months ended 31 December, being the first half of IAG's financial year. For example, "1H16" refers to the six months ended 31 December 2015. All references starting with "2H" refer to the six months ended 30 June, being the second half of IAG's financial 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.

CONTENTS

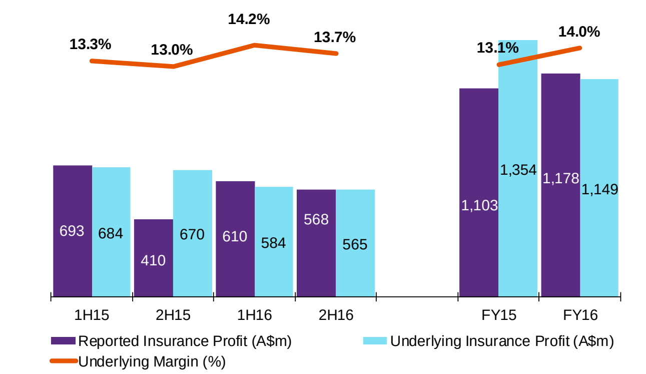
FY16 GROUP RESULTS

KEY RESULTS	FY15 A$m	1H16 A$m	2H16 A$m	FY16 A$m	FY16 vs FY15 Mvt
Gross written premium (GWP)	**11,440**	**5,543**	**5,824**	**11,367**	**-0.6%**
Net earned premium (NEP)	10,329	4,102	4,126	8,228	-20.3%
Insurance profit	**1,103**	**610**	**568**	**1,178**	**+6.8%**
Net profit after tax (NPAT)	728	466	159	625	-14.1%
Cash NPAT	**987**	**504**	**363**	**867**	**-12.2%**
Reported insurance margin	10.7%	14.9%	13.8%	14.3%	+360bps
Underlying insurance margin	**13.1%**	**14.2%**	**13.7%**	**14.0%**	**+90bps**
Cash return on equity (ROE)	15.3%	14.7%	10.8%	13.0%	-230bps
Dividend (cents per share)	**29.0**	**13.0**	**13.0**	**26.0**	**-10.3%**
Special dividend (cents per share)	**n/a**	**10.0**	**n/a**	**10.0**	**n/a**
Prescribed Capital Amount (PCA) multiple	1.70	1.80	1.72	1.72	+2bps
Common Equity Tier 1 Capital (CET1) multiple	1.14	1.23	1.06	1.06	-8bps

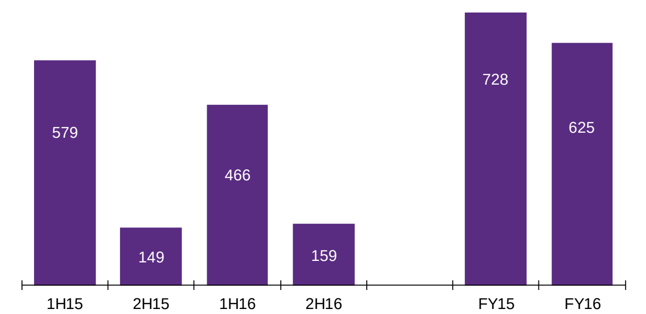
GWP GROWTH



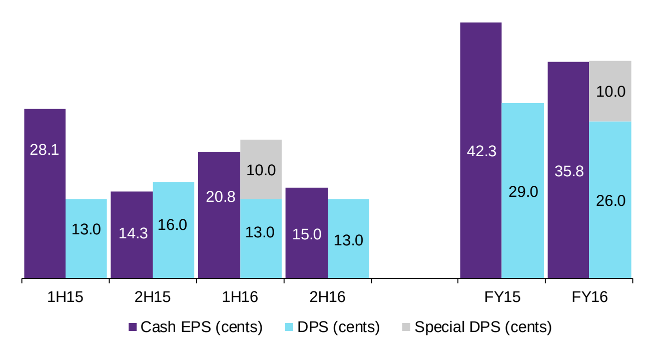
INSURANCE PROFIT & MARGIN



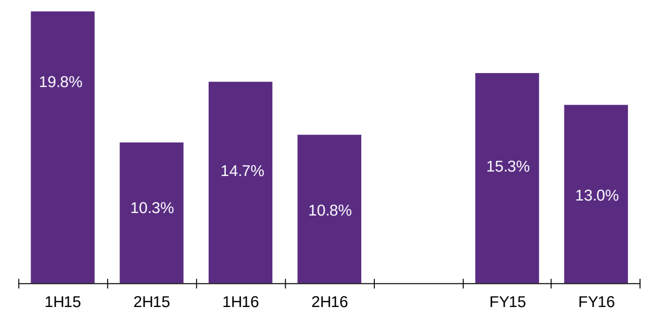
NET PROFIT AFTER TAX (A$M)



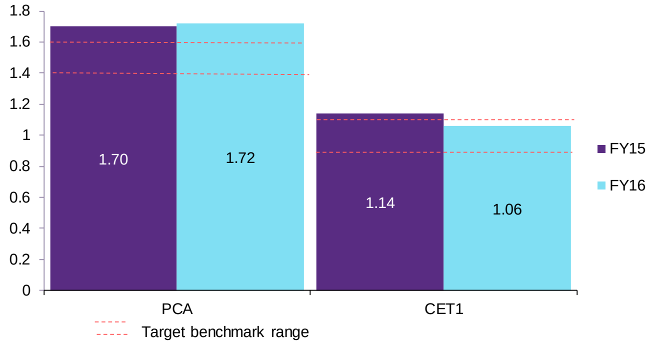
CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Sound performance maintained across FY16 in challenging operating environment
- 0.6% decline in GWP in line with expectations – tough commercial market conditions, solid personal lines growth
- Favourable effects from first year of 20% quota share arrangement with Berkshire Hathaway as expected: underlying margin enhancement of 250 basis points, ~$400m reduction in regulatory capital requirement
- Underlying margin of 14.0%, after absorption of continued commercial market pressures
- Insurance profit of $1,178m* giving a reported margin of 14.3%, consistent with FY16 guidance
- Benefits from Wesfarmers business integration and revised Australian operating model realised to plan
- Net reserve releases of 2.5% – higher than expected CTP releases, offset by increased earthquake risk margin recognised in 1H16
- Net natural peril claim costs $59m above $600m allowance, following higher than initially expected cost of June east coast low event
- Earthquake and asbestos exposures addressed via combined reinsurance initiative (announced in February 2016) – minor negative earnings impact in 2H16
- Non-cash capitalised software writedown of $198m pre-tax at 30 June 2016, following detailed review – included in net corporate expenses
- Strong capital position, above (PCA 1.72) or towards upper end (CET1 1.06) of benchmark targets
- Final dividend of 13 cents per share, giving full year payout of nearly 73% of cash earnings – in line with new policy
- $300m off-market buy-back announced, to be completed by mid-October 2016
- FY17 guidance of relatively flat GWP growth, reported margin of 12.5-14.5%

FY16 OVERVIEW

IAG has delivered a sound operating performance in FY16, in line with the updated guidance provided in February 2016, of relatively flat GWP growth and a reported insurance margin at the lower end of a 14-16% range.

This was achieved in an environment of challenging operating conditions in IAG's core markets in Australia and New Zealand. Pressures on profitability were particularly apparent in commercial markets, from a prolongation of soft conditions, although growing ability to increase rates was evident, particularly in Australia, as the year progressed. Long tail CTP profitability (notably in NSW) remained under pressure from the high frequency of minor severity, legally represented claims.

IAG's short tail personal lines franchises in Australia and New Zealand continued to report strong profitability and sound growth, as they successfully respond to evolving customer behaviours and needs via a full range of customer propositions complemented by digital and new product initiatives. Moderate average rate increases countered the impact of increased claim frequency, notably in motor.

Residual benefits from the integration of the former Wesfarmers business and the implementation of a revised Australian operating model were realised in line with plan, with a pre-tax run rate of $180m of non-reinsurance benefits met by the conclusion of FY16. Like-for-like expenses were lower in 2H16.

The contribution from Asia increased, with strong performances from the established businesses in Thailand and Malaysia. Proportional GWP grew in excess of 7%. Asia continues to remain an important long term growth option for IAG.

IAG has delivered a sound operating performance in challenging market conditions

**The FY16 reported insurance profit and margin in this document are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure in IAG's FY16 Annual Report. A reconciliation between the two is provided on page 13 of this document and on page 7 of the Annual Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's FY16 net profit after tax is the same in this document and in the Annual Report.*

1. EXECUTIVE SUMMARY

BERKSHIRE HATHAWAY QUOTA SHARE

Positive effect of Berkshire Hathaway quota share in line with expectations

IAG entered into a 20% whole-of-account quota share arrangement with Berkshire Hathaway, commencing 1 July 2015 for a minimum term of ten years. This 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;
- Enhanced IAG's underlying margin by approximately 250bps;
- Lowered IAG's regulatory capital requirement by ~$400m (with an expected further ~$300m reduction over the next 2-3 years); and
- Promoted new and complementary business opportunities, as well as facilitating an exit from IAG's large-corporate commercial book.

GROSS WRITTEN PREMIUM (GWP)

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

The 0.6% reduction in reported FY16 GWP is consistent with IAG's 'relatively flat' full year guidance, and included a 2H16 contraction of 0.2%. The full year outcome comprised:

- Sound growth in short tail personal lines from a mixture of rate and volume, in both Australia and New Zealand;
- Flat long tail personal lines GWP (CTP), as volume reduction was offset by necessary rate increases to address claim frequency issues;
- Lower commercial lines GWP, driven by lower volumes from the strict application of underwriting disciplines and the effect of lower average rates in soft market conditions; and
- Sound growth in Asia, principally in Thailand, which was amplified by a favourable foreign exchange translation effect.

UNDERLYING MARGIN

Strong underlying profitability, despite pressure in commercial markets

IAG continued to demonstrate strong underlying profitability in FY16. Aside from the quota share impact, the underlying margin of 14.0% (FY15: 13.1%) contained:

- Strong profitability in short tail personal lines in Australia and New Zealand, but with some adverse impact from increased claim frequency;
- Pressure on returns in the equivalent commercial lines markets, reflecting lower volumes and the cumulative effect of past rate reductions;
- Ongoing pressure on NSW CTP profitability from elevated claim frequency levels; and
- Lower like-for-like expenses, as further benefits from the Wesfarmers integration and revised Australian operating model were realised.

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.

1. EXECUTIVE SUMMARY

REPORTED INSURANCE MARGIN

IAG's FY16 reported insurance profit of $1,178m was nearly 7% higher than FY15 ($1,103m). Alongside the positive quota share effect, the higher reported insurance margin of 14.3% (FY15: 10.7%) included:

- Net natural peril claim costs of $659m (FY15: $1,048m), which exceeded allowance by $59m following a higher than originally anticipated loss from the east coast low event in June 2016;
- An adverse credit spread impact of $37m, compared to a favourable effect of $33m in FY15; and
- Higher than expected prior period reserve releases of $207m, equivalent to 2.5% of NEP, up from $167m (1.6% of NEP) in FY15.

The prior period reserve release outcome comprised two distinct and partially 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, as recognised in 1H16.

Reported insurance margin of 14.3%, including higher than expected reserve releases and peril costs in excess of allowance

DIVISIONAL HIGHLIGHTS

	FY15				FY16			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
DIVISION	A$m	%	%	%	A$m	%	%	%
Consumer Division	5,614	5.2	15.9	13.9	5,801	3.3	19.8	16.0
Business Division	3,192	40.7	3.0	10.5	2,979	(6.7)	10.0	9.7
New Zealand	2,267	22.8	10.8	15.9	2,182	(3.7)	8.6	16.9
Asia	353	11.4	nm	nm	386	9.3	nm	nm
Corporate & Other	14	nm	nm	nm	19	nm	nm	nm
Total Group	**11,440**	**17.0**	**10.7**	**13.1**	**11,367**	**(0.6)**	**14.3**	**14.0**

The Australian **Consumer Division** (51% of Group GWP) produced a strong underlying margin of 16.0%. Short tail home and motor lines performed well, generating GWP growth of ~4%. Long tail CTP contributed flat GWP, while its profitability continued to suffer from claim frequency issues in the NSW market. The business' reported margin, of 19.8%, benefited from reserve releases significantly above long term expectations, at over 6% of NEP, and a much-reduced adverse natural perils outcome compared to FY15.

Short tail personal lines performing well, while commercial and CTP classes under pressure

The Australian **Business Division** saw a 6.7% contraction in GWP in tough commercial market conditions. Strict adherence to underwriting disciplines contributed to lower volumes, while the impact of lower average rates diminished from the end of 1H16 as modest rate rises were progressively implemented. A lower underlying margin reflected pressures on profitability that were not fully offset by the realisation of further synergies from the Wesfarmers integration and favourable quota share effect. Reported margin rose to 10.0%, following a significantly lower net natural peril claim cost.

New Zealand continued to perform well, registering a strong underlying margin of 16.9%, despite increased pressure on the commercial side of its business. A lower reported margin of 8.6% included the increased risk margin in respect of the February 2011 earthquake event, recognised in 1H16. Modest premium growth in direct personal lines was more than offset by the tougher market conditions in the commercial segment, resulting in a 3.7% decline in reported GWP.

1. EXECUTIVE SUMMARY

Asia saw consolidated GWP growth of over 9%, with sound gains in Thailand amplified by a favourable foreign exchange effect on translation. This year also saw the first full contribution from the small business acquired in Indonesia. Asia's overall earnings contribution increased to $26m (FY15: $21m), with strong performances from the established businesses in Thailand and Malaysia.

RUN-OFF PORTFOLIO REINSURANCE PROTECTION

Innovative reinsurance package materially mitigates earthquake and asbestos exposures

In February 2016, IAG 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
- A reinsurance arrangement 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 resulted in a pre-tax loss of $5m which has been recognised in the net corporate expense line in 2H16.

CAPITALISED SOFTWARE ACCELERATED AMORTISATION AND IMPAIRMENT

Non-cash capitalised software charge, following detailed review

At 30 June 2016, IAG has recognised a non-cash, pre-tax charge of $198m ($139m post-tax) for accelerated amortisation and impairment of capitalised software.

The charge follows a detailed review of capitalised software assets and accounting treatment, in light of:

- The present environment of unprecedented digital disruption and its likely material impact on the complexion of future information technology (IT) infrastructure investment; and
- IAG's commencement of a programme that will significantly simplify its IT systems in future years.

The overall charge embraces three contributory elements:

- A full impairment of certain assets which have been assessed as no longer providing future economic benefit;
- A reassessment of the useful lives of certain assets, from up to ten years in duration to no more than three years, with an accompanying adjustment to the carrying value; and
- A revision to the software capitalisation threshold, increasing it from $5m to $10m, resulting in an accelerated recognition of the associated future amortisation charges.

These changes have not affected the software amortisation charge incurred within the FY16 insurance profit. The FY17 insurance profit will benefit from a lower amortisation charge compared to FY16, but this will be offset by a broadly similar-sized increase in expense arising from the increased software capitalisation threshold.

The capitalised software charge has been included in the net corporate expense line for reporting purposes, and has been:

- Excluded from cash earnings for determination of the dividend; and
- Included in cash ROE for determination of FY16 executive long term incentive entitlements.

1. EXECUTIVE SUMMARY

NET PROFIT AFTER TAX / ROE

Cash ROE of 13.0%

IAG reported a significantly higher tax rate than FY15, but one which was lower than the normally expected level, at 22.3%. This was largely driven by the favourable resolution of a tax audit associated with IAG's former UK operations, as recognised in 1H16.

The FY16 tax expense also included largely offsetting effects in lower tax jurisdictions, comprising:

- Further reinsurance recoveries relating to the September 2010 Canterbury earthquake event, as recognised by IAG's captive vehicle in 1H16; and
- Withholding tax-related adjustments and the unwind of reinsurance effects stemming from the arrangement over asbestos-related risks, identified in 2H16.

Net profit after tax of $625m was 14.1% lower than FY15. This included:

- A significantly lower contribution from investment income on shareholders' funds, which reflected relatively weak equity market returns;
- The $139m post-tax charge in respect of capitalised software assets; and
- A near-$100m increase in tax expense, following a significantly reduced favourable effect from earthquake recoveries in a lower tax jurisdiction.

Reported return on equity (ROE) in FY16 was 9.3%, while cash ROE was 13.0%. This compares to IAG's through-the-cycle target of approximately 1.5 times weighted average cost of capital (WACC), which equates to an ROE of nearly 15% on a longer term perspective.

DIVIDEND

Full year dividend payout of c.73% of cash earnings, in line with revised policy

The Board has determined to pay a final fully franked dividend of 13.0 cents per ordinary share (2H15: 16.0cps), bringing the full year payout to 26.0 cents per share (FY15: 29.0cps). This equates to a full year cash payout ratio of 72.9%, in line with IAG's increased dividend payout policy of 60-80% of cash earnings on a full year basis, which took effect from FY16 (previously 50-70% of cash earnings).

In addition, IAG paid a special fully franked dividend of 10.0 cents per ordinary share at the end of March 2016.

CAPITAL

$300m off-market buyback announced, given strong capital position

IAG's capital position is strong, at 1.72 times the Prescribed Capital Amount (PCA) at 30 June 2016, which is above the Group's targeted range of 1.4-1.6. The Common Equity Tier 1 (CET1) ratio stood at 1.06 at 30 June 2016, against a target benchmark of 0.9-1.1.

If allowance is made for payment of the final dividend (which will occur in October 2016), the PCA multiple at 30 June 2016 would exceed IAG's benchmark range, while the CET1 multiple would remain within the equivalent target range.

In recognition of its strong capital position, and with a focus on maximising shareholder returns, IAG has announced a $300m off-market buyback which is expected to be completed in mid-October 2016. The buyback is expected to improve IAG's future earnings per share and return on equity and will be open to eligible shareholders registered at 7.00pm on 25 August 2016.

IAG's debt to total tangible capitalisation ratio at 30 June 2016 increased to 36.8%, compared to its targeted range of 30-40%. During 2H16 IAG issued NZ$350m of convertible notes.

1. EXECUTIVE SUMMARY

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 30 June 2016.

FY17 OUTLOOK

IAG expects to record a sound operating performance in FY17, against a backdrop of:

- Competitive conditions in its core mature markets of Australia and New Zealand;
- Ongoing pressure on profitability in commercial segments, as the impact of past reductions in volumes and rates is fully felt; and
- Continued challenges in NSW CTP, ahead of anticipated scheme reform measures which are expected to take effect no earlier than FY18.

Sound operating performance expected to be maintained in FY17, despite continuation of challenging and competitive conditions

IAG's GWP growth in FY17 is expected to be relatively flat, embracing:

- Modest growth in short tail personal lines in Australia and New Zealand, as low single digit rate increases are supplemented by volume growth similar to system;
- Growth in overall CTP volumes in Australia, owing to IAG's entrance into the South Australian market from 1 July 2016; and
- Continued tough conditions in commercial markets, with increased rates in certain classes more than offset by lower volumes. This includes an approximately $130m reduction in GWP from the sale of Swann Insurance's motor vehicle dealership business in early August 2016.

IAG's reported margin guidance for FY17 is a range of 12.5-14.5%. Underlying assumptions behind the reported margin guidance are:

- Net losses from natural perils in line with allowance of $680m (FY16: $600m);
- Prior period reserve releases of at least 1% of NEP; and
- No material movement in foreign exchange rates or investment markets.

FY17 guidance of flat GWP and a reported margin in the range of 12.5-14.5%

A range of cost-out initiatives will gather momentum in FY17, including operational partnering with offshore-based global service suppliers to access their specific expertise and economies of scale, and organisation-wide systems simplification. IAG's FY17 margin guidance includes a small net negative effect from these activities, as modest initial benefits are more than offset by related implementation costs. It is IAG's current expectation that this net cost will be borne above the line in FY17, within the insurance profit.

The reported margin guidance and accompanying assumptions correspond to an underlying margin range of approximately 12.5-14.5%, compared to FY16's outcome of 14.0% and a 2H16 result of 13.7%. This outlook reflects:

- Ongoing pressure on NSW CTP profitability, ahead of scheme reform;
- Further earned-through effects of lower commercial volumes and rates;
- The net short term cost of operational partnering and systems simplification initiatives; and
- An adverse impact from the greater than 13% increase in natural perils allowance. The lower FY16 allowance took into account the position of IAG's aggregate reinsurance cover at the beginning of the financial year. This subsequently delivered ~$120m of pre-tax protection in 1H16.

The impact of the Berkshire Hathaway quota share is expected to be similar to FY16.

2. PURPOSE & STRATEGY

Our purpose

We make your world a safer place

Our opportunity

Embrace innovation

Our customers - like IAG - are facing changes at a rapid pace, driven by new technologies and shifting demographic trends. Whether in Australia, New Zealand or Asia, they face the same choice that we do as an organisation: do we let change happen to us, or do we embrace it and participate in making things better?

IAG is determined to lead, helping our customers navigate through this journey and using innovation to make their lives safer and better.

Our objective

World class customer experiences

All the elements of our strategy are driven by our customers' needs. As well as delivering world class customer experiences, we will make IAG as successful as possible so we can reinvest in our leadership position.

IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves across Australia, New Zealand or Asia, IAG exists to 'make your world a safer place'. IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.

STRATEGIC FRAMEWORK

To fulfil its purpose, IAG is focusing on two key strategic themes:

- **LEADING the change that its customers need and demand.** IAG is embracing innovation, to help customers navigate through change to make their lives safer and better. This has the company's customers at its core, and aims to make the experiences they have with IAG world class, through technology and smart ideas, at each individual interaction.

- **FUELLING the business so that it can deliver on these opportunities.** To fuel the investments in its continued leadership, IAG needs to be leaner and more responsive. This involves tackling necessary changes to the way IAG operates – simplifying processes and systems, and optimising resources, to be more efficient.

3. GROUP RESULTS

FINANCIAL PERFORMANCE

GROUP RESULTS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**5,603**	**5,837**	**5,543**	**5,824**	**11,440**	**11,367**
Gross earned premium	5,805	5,720	5,734	5,677	11,525	11,411
Reinsurance expense	(651)	(545)	(1,632)	(1,551)	(1,196)	(3,183)
Net earned premium	**5,154**	**5,175**	**4,102**	**4,126**	**10,329**	**8,228**
Net claims expense	(3,481)	(3,460)	(2,589)	(2,808)	(6,941)	(5,397)
Commission expense	(518)	(516)	(423)	(386)	(1,034)	(809)
Underwriting expense	(889)	(924)	(654)	(653)	(1,813)	(1,307)
Underwriting profit	**266**	**275**	**436**	**279**	**541**	**715**
Investment income on technical reserves	427	135	174	289	562	463
Insurance profit	**693**	**410**	**610**	**568**	**1,103**	**1,178**
Net corporate expense	(44)	(111)	(14)	(207)	(155)	(221)
Interest	(52)	(55)	(51)	(48)	(107)	(99)
Profit/(loss) from fee based business	10	9	10	(8)	19	2
Share of profit from associates	9	7	8	12	16	20
Investment income on shareholders' funds	137	86	38	59	223	97
Profit before income tax and amortisation	**753**	**346**	**601**	**376**	**1,099**	**977**
Income tax expense	(68)	(51)	(67)	(151)	(119)	(218)
Profit after income tax (before amortisation)	**685**	**295**	**534**	**225**	**980**	**759**
Non-controlling interests	(63)	(39)	(40)	(37)	(102)	(77)
Profit after income tax and non-controlling interests (before amortisation)	**622**	**256**	**494**	**188**	**878**	**682**
Amortisation and impairment	(43)	(107)	(28)	(29)	(150)	(57)
Profit attributable to IAG shareholders	**579**	**149**	**466**	**159**	**728**	**625**

Insurance Ratios	1H15	2H15	1H16	2H16	FY15	FY16
Loss ratio	67.5%	66.9%	63.1%	68.1%	67.2%	65.6%
Immunised loss ratio	63.7%	67.0%	62.7%	65.4%	65.3%	64.0%
Expense ratio	27.3%	27.9%	26.2%	25.2%	27.6%	25.7%
Commission ratio	10.1%	10.0%	10.3%	9.4%	10.0%	9.8%
Administration ratio	17.2%	17.9%	15.9%	15.8%	17.6%	15.9%
Combined ratio	94.8%	94.8%	89.3%	93.3%	94.8%	91.3%
Immunised combined ratio	91.0%	94.9%	88.9%	90.6%	92.9%	89.7%
Reported insurance margin	13.4%	7.9%	14.9%	13.8%	10.7%	14.3%
Underlying insurance margin	13.3%	13.0%	14.2%	13.7%	13.1%	14.0%

Key Financial Metrics	1H15	2H15	1H16	2H16	FY15	FY16
Reported ROE (average equity) (% pa)	17.6%	4.6%	13.6%	4.7%	11.3%	9.3%
Cash ROE (average equity) (% pa)	19.8%	10.3%	14.7%	10.8%	15.3%	13.0%
Basic EPS (cents)	24.87	6.38	19.25	6.55	31.22	25.79
Diluted EPS (cents)	24.08	6.38	18.64	6.55	30.45	25.34
Cash EPS (cents)	28.05	14.30	20.81	14.97	42.33	35.78
DPS (cents)	13.00	16.00	13.00	13.00	29.00	26.00
Special DPS (cents)	n/a	n/a	10.00	n/a	n/a	10.00
Probability of adequacy	90%	90%	90%	90%	90%	90%
NTA backing per ordinary share ($)	1.28	1.34	1.37	1.30	1.34	1.30
PCA multiple	1.62	1.70	1.80	1.72	1.70	1.72

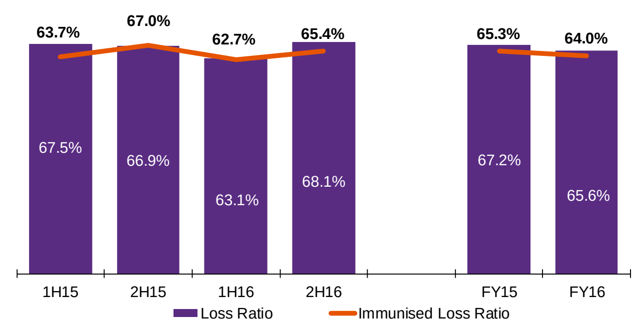
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A$	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY15	FY16	FY15	FY16
New Zealand dollar	1.1383	1.0451	1.0746	1.0875
Thai baht	26.0892	26.1575	27.2035	25.7732
Malaysian ringgit	2.9128	3.0011	2.8781	3.0077
Indian rupee	49.0436	50.3018	51.6529	48.1928

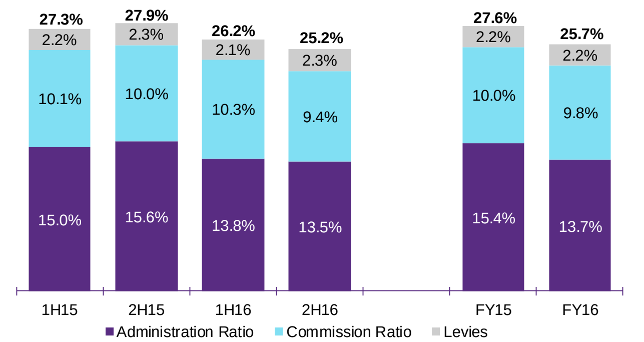
3. GROUP RESULTS

INSURANCE RATIOS

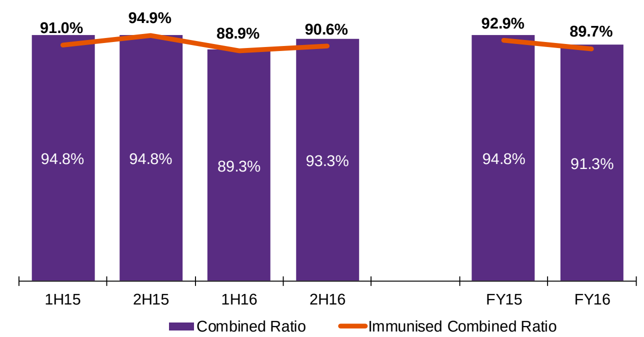
LOSS RATIO



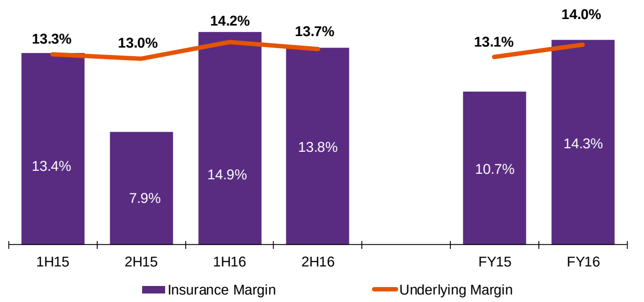
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



PREMIUMS

FY16 GWP of $11,367m represented a 0.6% reduction compared to FY15 ($11,440m), and included a lower 2H16 contraction of 0.2% (1H16: -1.1%). This outcome was characterised by:

- Modest GWP growth in personal lines in both Australia and New Zealand, from a mixture of volume and rate; and
- A continuation of tough conditions in the equivalent commercial markets, where reduced GWP reflected volume loss and lower average rates as underwriting disciplines were maintained.

There was a near-neutral foreign exchange translation effect, with a negative impact in New Zealand offset by a favourable movement in Thailand.

Comparing FY16 GWP with FY15 on a divisional basis:

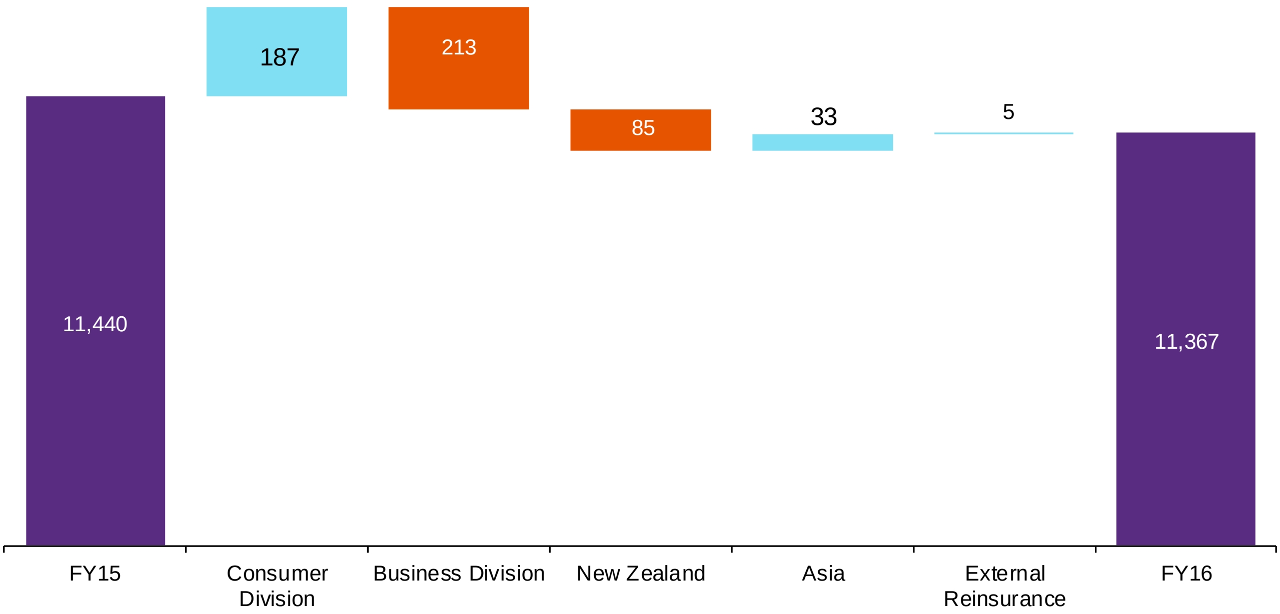
- The Australian **Consumer Division** grew its GWP by 3.3%, to $5,801m, with growth derived from short tail motor and home lines and sourced from a mixture of volume and rate. Long tail CTP GWP was flat, with lower volumes offset by higher rates, notably in NSW;
- The Australian **Business Division**'s GWP declined by 6.7%, to $2,979m, reflecting soft commercial market conditions. Adherence to strict underwriting discipline contributed to lower volumes, while the effect of lower average rates eased as the year progressed, with modest increases achieved in some classes as evidence of a cycle-bottoming accrued;
- **New Zealand** GWP reduced by 3.7%, to $2,182m, with market conditions similar to those experienced in Australia. The business continued to achieve modest growth in personal lines, from a combination of rate and volume, while GWP from commercial lines contracted in the face of softer rates and increased competition. Maintenance of underwriting discipline resulted in lower commercial volumes; and

FY16 GWP reduction of 0.6%, in line with 'relatively flat' guidance

3. GROUP RESULTS

- In **Asia**, consolidated GWP rose by 9.3%, to $386m, incorporating sound growth in Thailand amplified by a favourable foreign exchange translation effect. On a proportional basis, like-for-like GWP increased by 7.5%, including continued strong growth in India and a resumption of growth in Malaysia in 2H16. IAG's Asian businesses' combined gross annualised GWP pool now exceeds $1.4bn.

GWP – FY16 VS. FY15 (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, approximately $400m of which had occurred by the conclusion of FY16.

The quota share had the following effects on IAG's FY16 earnings:

- Reinsurance expense: inflated by recognition of the 20% of the gross earned premium 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

Berkshire Hathaway quota share increased FY16 underlying margin by approximately 250bps

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

The Berkshire Hathaway quota share arrangement had a relatively neutral impact on IAG's FY16 reported insurance profit, but enhanced the underlying insurance margin by approximately 250bps. This outcome was as expected.

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.

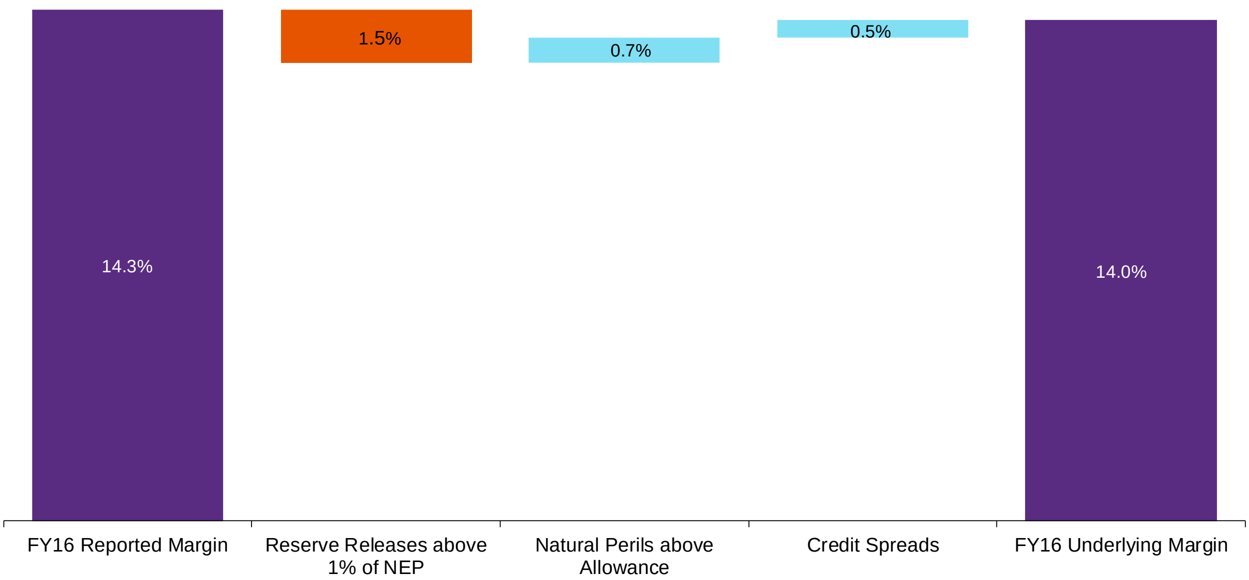
INSURANCE MARGIN

IAG continued to perform well at an underlying level, producing an underlying margin in FY16 of 14.0% (2H16: 13.7%). This exceeded the 13.1% recorded in FY15, with notable ingredients in the year-on-year movement being:

- The favourable effect of the 20% quota share arrangement with Berkshire Hathaway which commenced on 1 July 2015 and raised the underlying margin by approximately 250bps;
- Pressures on profitability from the prolonged soft conditions in commercial markets in Australia and New Zealand;
- Ongoing pressure on NSW CTP profitability from high claim frequency;
- Some increase in short tail claims frequency, notably in motor; and
- Benefit from the realisation of residual synergies and efficiencies from the integration of the former Wesfarmers business and the implementation of a revised operating model in Australia. IAG achieved the targeted $230m pre-tax run rate of savings from these initiatives by the conclusion of FY16, comprising $50m from reinsurance and $180m from other areas.

Sound underlying performance, in face of commercial and CTP-related pressures

GROUP INSURANCE MARGIN – UNDERLYING VS. REPORTED



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 FY16 insurance margin of 14.3% was higher than FY15 (10.7%), partly owing to the favourable effect of the Berkshire Hathaway quota share arrangement. Other notable features were:

- A markedly reduced adverse net natural peril claim cost outcome, which was $59m above allowance, compared to a $348m overrun in FY15;
- A $70m adverse movement in credit spread effect, swinging from a favourable impact of $33m from the narrowing of spreads in FY15 to a negative contribution of $37m in FY16 as spreads widened; and
- A $40m increase in prior period reserve releases to $207m, housing:
  - Higher than expected releases from Australian long tail classes, notably CTP; partially offset by
  - An increase in the risk margin in respect of the February 2011 Canterbury earthquake event, as recognised in 1H16.

Higher reported margin of 14.3%

All divisional underlying insurance margin outcomes in FY16 enjoyed similar uplift from the Berkshire Hathaway quota share arrangement, of approximately 250bps. Individual outcomes were:

- A strong underlying margin of 16.0% from the Australian **Consumer Division**, despite ongoing pressure from claims frequency in NSW CTP and an increase in short tail claim frequency, notably in motor. A higher reported margin of 19.8% included higher than anticipated prior period reserve releases, principally from long tail classes;
- A lower underlying margin of 9.7% from the Australian **Business Division**, which reflected tough commercial market conditions. The division's reported margin improved to 10.0%, aided by higher prior period reserve releases and a much-reduced adverse impact from net natural peril claim costs;
- A continued strong performance from **New Zealand**, with an underlying margin of 16.9%. The division's reported margin, of 8.6%, reflected a NZ$150m increase in risk margin applicable to the February 2011 earthquake event, which was recognised in 1H16; and
- A higher insurance profit of $7m from **Asia**, reflecting an improved performance in Thailand and small losses in Vietnam and Indonesia.

Favourable quota share effect applicable to all divisional margins

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	92	75	60	147	167	207
Natural perils	(421)	(627)	(278)	(381)	(1,048)	(659)
Natural peril allowance	350	350	300	300	700	600
Credit spreads	40	(7)	(15)	(22)	33	(37)
Reserve releases	1.8%	1.4%	1.5%	3.5%	1.6%	2.5%
Natural perils	(8.2%)	(12.1%)	(6.7%)	(9.2%)	(10.1%)	(8.0%)
Natural peril allowance	6.8%	6.8%	7.3%	7.3%	6.8%	7.3%
Credit spreads	0.8%	(0.1%)	(0.4%)	(0.5%)	0.3%	(0.5%)

INSURANCE PROFIT

IAG's insurance profit increased by nearly 7% to $1,178m (FY15: $1,103m), as a net favourable impact from the combination of peril cost, reserve release and credit spread movements was partially offset by pressures on underlying profitability, notably in commercial markets.

Higher insurance profit excludes capitalised software and run-off reinsurance effects

The reported insurance profit reconciles to that in the statutory accounts after allowance for two items reclassified to net corporate expenses for Investor Report purposes, as outlined in the following table.

3. GROUP RESULTS

INSURANCE PROFIT	FY16 A$m
Investor Report	**1,178**
Capitalised software accelerated amortisation and impairment	(198)
Run-off portfolio reinsurance protection	(5)
Statutory accounts (Appendix 4E)	**975**

This Investor Report treatment reflects the fact that neither of these items are expected to be a feature of IAG's future earnings profile.

REINSURANCE EXPENSE

Reinsurance expense inflated by quota share effect

The total reinsurance expense includes the cost of all covers purchased by the Group, including catastrophe, casualty, facultative and proportional protection. The FY16 expense of $3,183m includes ~$2,500m (FY15: $310m) 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.

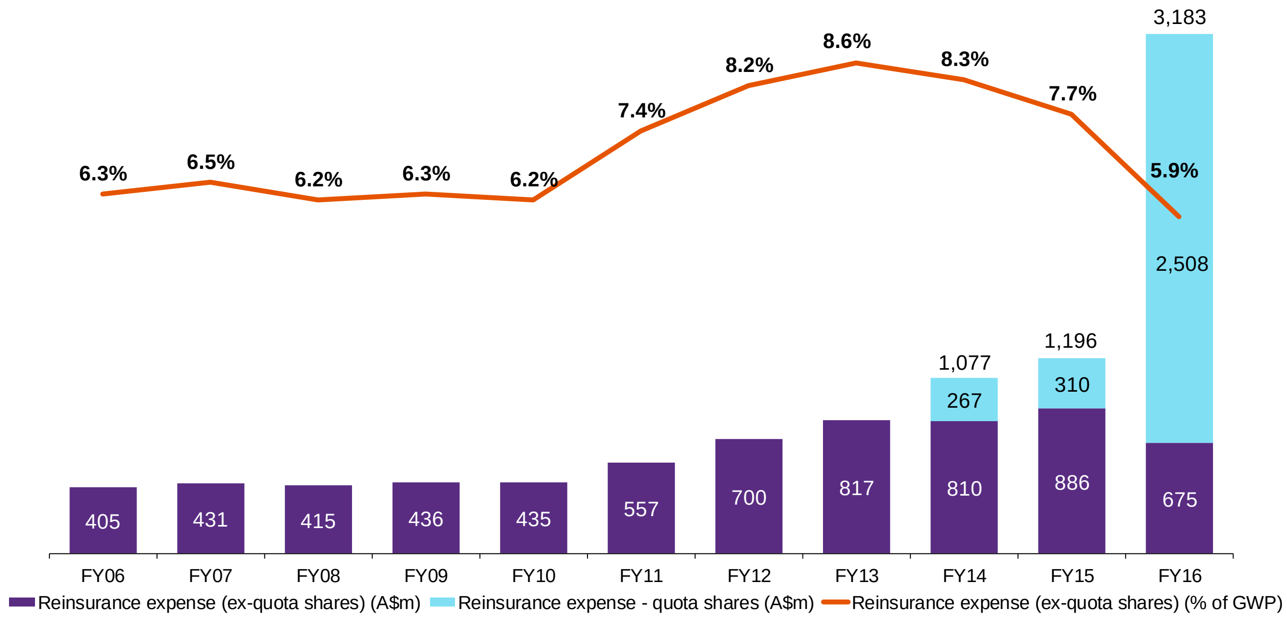
Favourable trend in underlying reinsurance expense

The non-quota share reinsurance expense reduced to $675m, or 5.9% of GWP, driven by:

- Reduced need for cover following inception of the quota share agreement with Berkshire Hathaway, particularly from 2H16 onwards;
- Lower catastrophe reinsurance costs, stemming from the calendar 2015 and 2016 renewals; and
- A full year's worth of synergies realised from inclusion of the previously standalone programme for the former Wesfarmers business.

On the same basis, the 2H16 reinsurance expense of $298m reflected the full effect of these influences, and represented 5.1% of GWP. Adjusting for the 20% reduction in reinsurance needs post the quota share, this ratio increases to approximately 6.4%, in line with the experience of FY06-FY10.

REINSURANCE EXPENSE



3. GROUP RESULTS

CLAIMS

The lower FY16 immunised loss ratio of 64.0% (FY15 65.3%) was driven by:

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

The FY16 reported loss ratio of 65.6% was also lower than FY15 (67.2%). In addition to reserve release and peril movements, it contains a smaller adverse risk free discount rate adjustment of $128m (after inclusion of foreign exchange effects), compared to FY15 ($191m).

IAG's underlying claims ratio (excluding reserve release, peril and discount rate effects) deteriorated slightly compared to FY15. A specific influence was increased frequency in short tail classes, notably motor, while high levels of claim frequency and legal representation remain an issue in NSW CTP.

Lower loss ratio assisted by reserve release and peril movements

Reserve Releases

The FY16 net claims expense includes $207m of prior period reserve releases, equivalent to 2.5% of NEP (FY15: 1.6%), compared to IAG's FY16 guidance of at least 1% of NEP.

The prior period reserve release outcome contains two distinct components:

- Higher than expected releases from Australian long tail classes, principally CTP. This follows further favourable experience against existing underlying assumptions, including claim size, finalisation rates and inflation, particularly for 2014 and prior accident years; and
- A partial offset from a NZ$150m increase to risk margin in respect of the February 2011 Canterbury earthquake event, as recognised in 1H16.

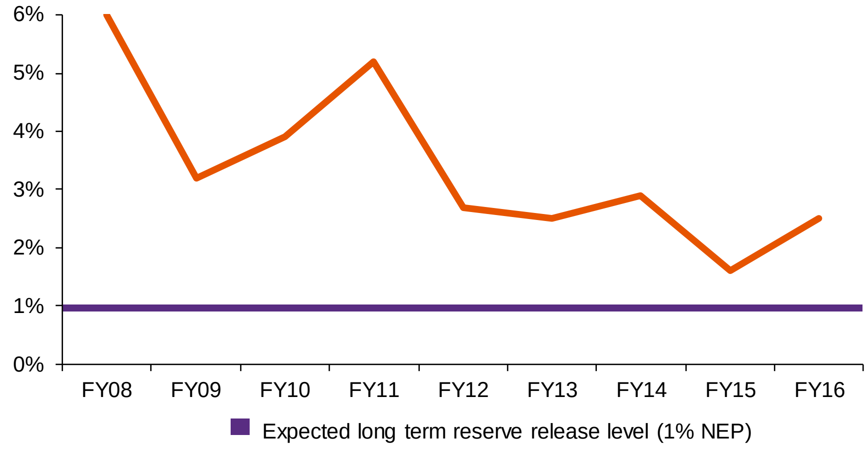
Higher reserve releases driven by CTP, partially offset by 1H16 earthquake effect

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	92	75	60	147	167	207
Impact on insurance margin	**1.8%**	**1.4%**	**1.5%**	**3.5%**	**1.6%**	**2.5%**

In February 2016, IAG announced the purchase of an ADC which provides NZ$600m of protection for the February 2011 earthquake event, in excess of the combined central estimate and risk margin for this event of NZ$4.4bn. This has materially reduced associated uncertainty.

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

RESERVE RELEASES – IMPACT ON INSURANCE MARGIN



3. GROUP RESULTS

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

Natural Perils

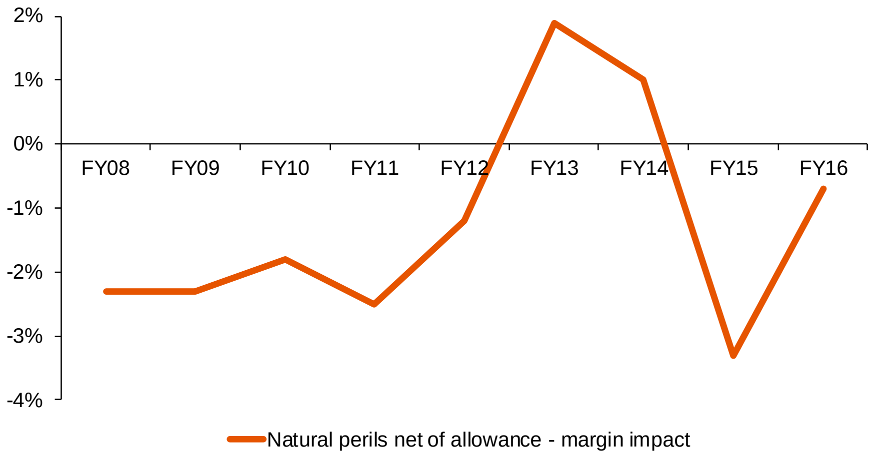
Net natural peril claim costs $59m above allowance

The FY16 net claims expense included $659m (FY15: $1,048m) of losses from natural perils (net of reinsurance), compared to an allowance of $600m. The net effect of natural perils (after allowance) was an unfavourable impact on the reported insurance margin of 0.7% (FY15: unfavourable impact of 3.3%).

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Natural peril claim costs	(421)	(627)	(278)	(381)	(1,048)	(659)
Natural peril allowance	350	350	300	300	700	600
Impact on insurance profit	**(71)**	**(277)**	**22**	**(81)**	**(348)**	**(59)**
Impact on insurance margin	**(1.4%)**	**(5.3%)**	**0.6%**	**(1.9%)**	**(3.3%)**	**(0.7%)**

IAG experienced a reasonably active period for natural peril events, particularly during 1H16. In that half, the net natural peril claim cost benefited from application of the calendar 2015 catastrophe reinsurance aggregate cover. This restricted seven individual events to a maximum cost of $20m each, providing combined protection of approximately $120m, on a post-quota share basis.

NATURAL PERILS – IMPACT ON INSURANCE MARGIN



The most significant natural peril event during the year was the east coast low in June 2016, which resulted in a net claim cost of $116m. This compared to an initial assessed cost in the range of $60-80m, as advised on 9 June 2016. The uplift in cost reflects higher than originally anticipated claim numbers and average claim size.

3. GROUP RESULTS

FY16 NATURAL PERIL COSTS BY EVENT	A$m
Eastern NSW rain and storms (August 2015)*	20
NSW and Adelaide hail storms (September 2015)*	20
Queensland hail storms - Fernvale, Chinchilla & Gayndah (October 2015)*	20
Brisbane hail and Melbourne storms (November 2015)	17
Queensland and NSW thunderstorms (November 2015)*	20
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
Australian monsoon and New Zealand storm (December 2015)	20
Western Australia bushfires - Yarloop (December 2015)	17
Victoria and NSW thunderstorms (January 2016)	23
ACT hail and Sydney flash floods (January 2016)	18
Geelong and Sydney flash floods (January 2016)	51
East coast low	116
Other events (<$15m)	257
Total	**659**

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

Comparable peril experience in FY15 contained a sequence of large events, notably:

- The Brisbane hail storm in November 2014 ($210m);
- Tropical Cyclone Marcia in February 2015 ($133m); and
- An east coast low in April 2015 ($250m).

Attritional events (below $15m in size) were similar in quantum to FY15, after allowing for the quota share effect.

The calendar 2016 aggregate reinsurance deductible had been eroded to the extent of approximately $130m (post-quota share) at 30 June 2016, leaving approximately $170m of aggregate deductible before this cover is active.

EXPENSES

Lower expenses, ex-quota share effects

Total operating expenses (commission and underwriting) were $2,116m, compared to $2,847m in FY15. The 26% reduction in reported expenditure is largely explained by the first-time application of the quota share arrangement which saw:

- 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.

EXPENSES	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross commission expense	522	521	531	508	1,043	1,039
Gross underwriting expense	910	946	919	903	1,856	1,822
Total gross expenses	**1,432**	**1,467**	**1,450**	**1,411**	**2,899**	**2,861**
Reinsurance commission revenue	(25)	(27)	(373)	(372)	(52)	(745)
Total net expenses	**1,407**	**1,440**	**1,077**	**1,039**	**2,847**	**2,116**

On a pre-quota share basis, overall expenses were lower, notably in 2H16, reflecting the combined effect of:

- Realisation of further benefits from integration of the former Wesfarmers business and implementation of the revised operating model in Australia, in line with plan;

3. GROUP RESULTS

- Increased reinvestment in the business, spanning projects directed at improved customer service, product design and digital capability; and
- Modest inflation applicable to the existing cost base.

The reported expense ratio improved to 25.7% (FY15: 27.6%), aided by inclusion of the exchange commission, and on an ex-levies basis the administration ratio was 13.7% (FY15: 15.4%).

IAG's commission ratio of 9.8% was marginally lower than FY15 (10.0%), largely reflecting business mix changes.

INVESTMENT INCOME ON TECHNICAL RESERVES

Average yield consistent with FY15, ex-reinsurance outflow effects

Investment income on technical reserves for FY16 was $463m, compared to $562m in FY15. This outcome includes:

- An unrealised capital gain of $151m, compared with an equivalent gain of $167m in FY15, excluding foreign exchange effects;
- A negative contribution of $37m from the widening of credit spreads (FY15: positive impact of $33m); and
- An adverse foreign exchange impact of $23m (FY15: favourable $24m), 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.

Excluding timing effects connected to the Berkshire Hathaway quota share and the inception of the asbestos reinsurance arrangement, the average yield was broadly consistent with that recorded in FY15.

The portfolio is aligned with the average weighted duration of the Group's claims liability which, by year end, had reduced to two to three years following the portfolio transfer of asbestos-related risks to Berkshire Hathaway. Prior to this, average duration was three to four years.

NET CORPORATE EXPENSE

Net corporate expenses include accelerated amortisation and impairment of capitalised software assets

A pre-tax net corporate expense of $221m was recognised in FY16 (FY15: $155m). This primarily comprises:

- A nearly-$200m non-cash accelerated amortisation and impairment of capitalised software assets following a detailed review in light of the present environment of unprecedented digital disruption and IAG's commencement of a programme that will significantly simplify its IT systems in future years. The charge embraces three contributory elements:
  - A full impairment of assets which have been assessed as no longer providing future economic benefit;
  - A reassessment of the useful lives of certain assets, with an accompanying adjustment to the carrying value; and
  - An increase in the software capitalisation threshold, from $5m to $10m, resulting in accelerated recognition of associated amortisation.
- Residual restructuring and integration costs associated with the acquisition of the former Wesfarmers business and the implementation of the revised operating model in Australia;
- A small net loss from the reinsurance package transacted with Berkshire Hathaway, covering asbestos and February 2011 Canterbury earthquake exposures; 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 $185m. All items have been added back for the calculation of cash earnings, when determining the dividend.

PROFIT FROM FEE BASED BUSINESS

Profit from fee based business is primarily sourced from the Business Division's role as agent for the NSW and Victorian workers' compensation schemes. A markedly lower profit of $2m (FY15: $19m) reflected significantly reduced incentive and service fees from these schemes.

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 FY16 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 $19m, after allocation of $17m of regional support and development costs. The Group's overall share of associates was a profit of $20m (FY15: $16m).

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Lower shareholders' funds income reflects relatively flat equity markets

Investment income on shareholders' funds was a profit of $97m, a decrease of over 56% on the profit of $223m in FY15. This included a weak local equity market performance in FY16, with the broader Australian index (S&P ASX200 Accumulation) delivering a return of 0.6% (FY15: 5.7%).

At 30 June 2016 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 48% (FY15: 41%).

TAX EXPENSE

Lower than normal tax rate, primarily owing to 1H16 UK tax audit effect

IAG reported a tax expense of $218m in FY16 (FY15: $119m), representing an effective tax rate (pre-amortisation) of 22.3% (FY15: 10.8%). While markedly higher than FY15, this lower than normal tax rate was largely driven by the favourable resolution of a tax audit associated with IAG's former UK operations, as recognised in 1H16.

The FY16 tax expense also included largely offsetting effects in lower tax jurisdictions, comprising:

- Further reinsurance recoveries relating to the September 2010 Canterbury earthquake event, as recognised by IAG's captive vehicle in 1H16; and
- Withholding tax-related adjustments and the unwind of reinsurance effects stemming from the arrangement over asbestos-related risks, identified in 2H16.

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 return to a more typical level, in the high 20s, in future periods.

The lower tax rate in FY15 incorporated a significantly higher favourable effect from earthquake-related reinsurance recoveries.

3. GROUP RESULTS

NON-CONTROLLING INTERESTS

The $77m non-controlling interests in IAG's profit compares to $102m in FY15. 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 FY15.

Lower non-controlling interests reflects higher peril incidence in IMA result

AMORTISATION AND IMPAIRMENT

The FY16 amortisation and impairment of acquired intangibles was $57m, compared to $150m in FY15. The lower charge in FY16 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; and
- The absence of the $60m impairment of the investment in Bohai Insurance, IAG's former China-based associate, which was included in FY15.

Lower amortisation charge influenced by absence of Bohai impairment

A similar amortisation charge is expected in FY17.

EARNINGS PER SHARE

Basic earnings per share (EPS) in FY16 was 25.79 cents per share (cps), compared to 31.22cps in FY15, a decrease of 17.4%. FY16 basic EPS was calculated on weighted average capital on issue of approximately 2,423m shares (excluding treasury shares). On a diluted basis, EPS was 25.34cps (FY15: 30.45cps).

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,431.4
Balance at the end of the financial year	**2,431.4**
Average weighted shares on issue	2,431.4
Less: Treasury shares held in trust	(8.3)
Average weighted shares on issue (excluding treasury shares)	**2,423.1**

Cash EPS was 35.78cps (FY15: 42.33cps), a decrease of 15.5%.

Cash EPS of 35.78 cents

CASH EARNINGS	FY16 A$m
Net profit after tax	**625**
Acquired intangible amortisation and impairment	57
Unusual items:	
- Corporate expenses	221
- Tax effect on corporate expenses	(36)
Cash earnings	**867**
Dividend payable	**632**
Cash payout ratio	**72.9%**

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; and
- Excluding any unusual items.

3. GROUP RESULTS

DIVIDEND

The Board has determined to pay a fully franked final dividend of 13.0 cents per ordinary share (2H15: 16.0cps), bringing the full year dividend to 26.0 cents per ordinary share (FY15: 29.0cps). The final dividend is payable on 5 October 2016 to shareholders registered as at 5pm on 7 September 2016.

The full year dividend equates to a payout ratio of 72.9% of cash earnings, which is in line with the revised payout policy of 60-80% of cash earnings on a full year basis. This was introduced with effect from FY16 (previously 50-70%) in recognition of IAG's strong capital position and limited scope for future acquisition activity in its home markets of Australia and New Zealand, given the strong market positions accumulated.

In addition, IAG has:

- Paid a special fully franked dividend of 10.0 cents per ordinary share in March 2016; and
- Announced a $300m off-market buy-back to be conducted in 1H17.

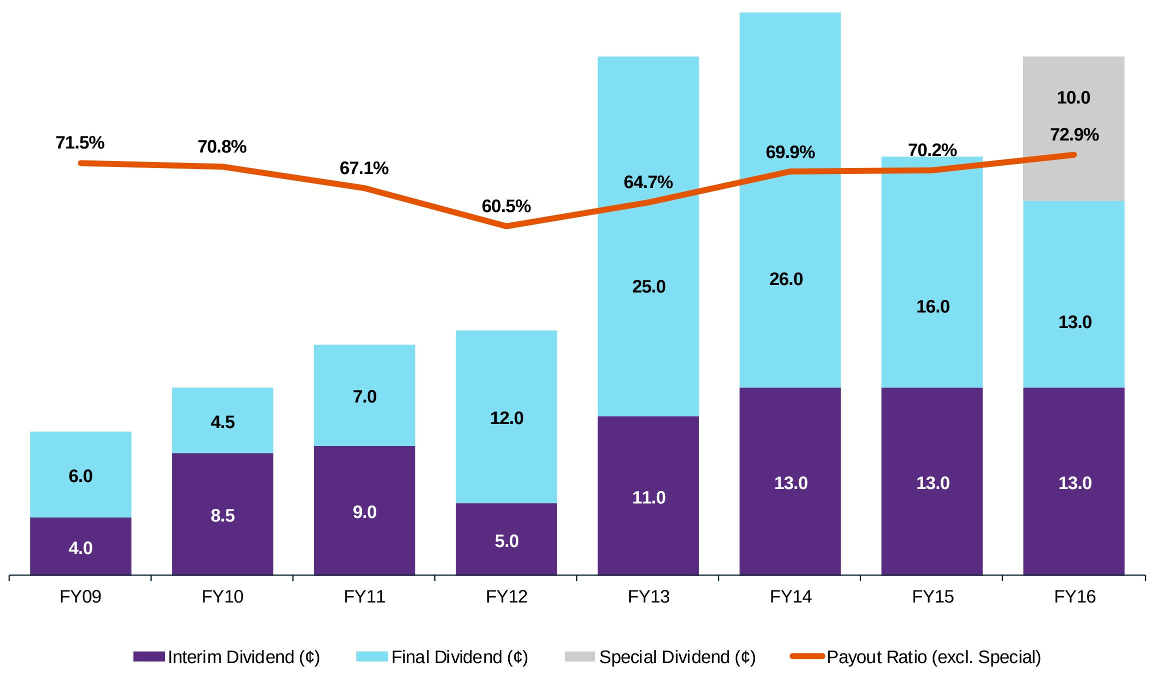
As at 30 June 2016, and after allowance for payment of the final dividend, IAG's franking balance was $212m, giving it the capacity to fully frank a further $495m of distributions. After allowance for the planned buy-back, it is estimated that IAG's franking balance would further reduce by over $50m, reducing fully franked distribution capability to ~$380m on a pro forma 30 June 2016 basis.

The dividend reinvestment plan (DRP) will operate for the final dividend for shareholders registered for the DRP as at 5pm on 8 September 2016. The issue price per share for the final dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at:

http://www.iag.com.au/shareholder-centre/dividends/reinvestment

Full year dividend payout of 72.9%, in line with increased policy

DIVIDEND HISTORY – FY09-FY16



3. GROUP RESULTS

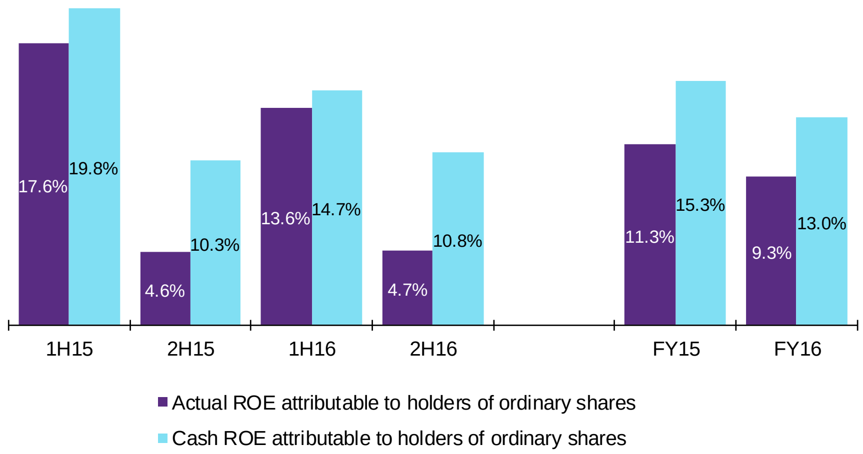
RETURN ON EQUITY

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.

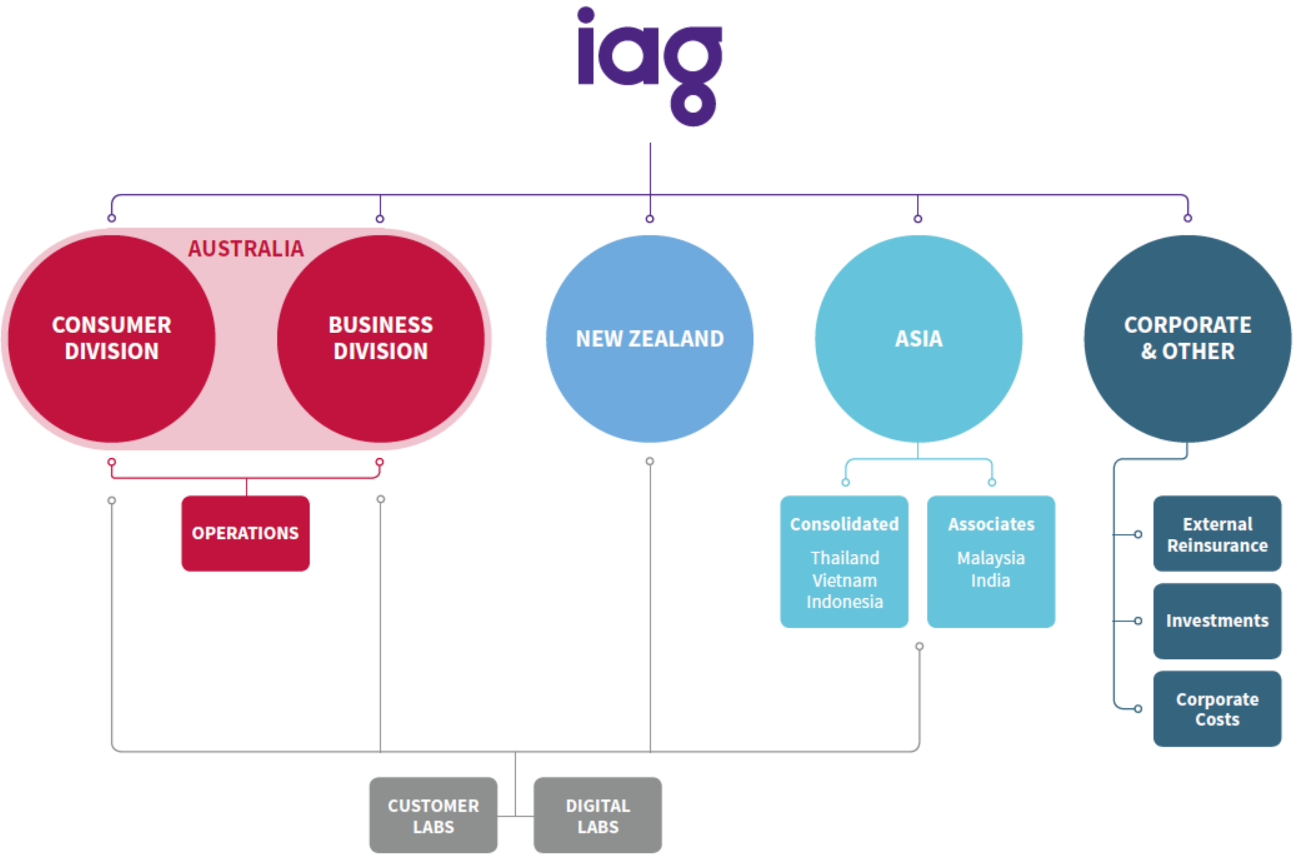
IAG's current long term cost of capital approaches 10%, equating to a cash ROE target of approximately 15%. In FY16, IAG reported a cash ROE of 13.0% (FY15: 15.3%).

Cash ROE of 13.0%

RETURN ON EQUITY (ANNUALISED)



4. FY16 SEGMENTAL OVERVIEW



FY16 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	**5,801**	**2,979**	**2,182**	**386**	**19**	**11,367**
Gross earned premium	5,686	3,122	2,201	386	16	11,411
Reinsurance expense	(1,622)	(819)	(623)	(111)	(8)	(3,183)
Net earned premium	**4,064**	**2,303**	**1,578**	**275**	**8**	**8,228**
Net claims expense	(2,751)	(1,467)	(1,017)	(157)	(5)	(5,397)
Commission expense	(211)	(347)	(181)	(67)	(3)	(809)
Underwriting expense	(558)	(448)	(252)	(49)	-	(1,307)
Underwriting profit	**544**	**41**	**128**	**2**	**-**	**715**
Investment income on technical reserves	261	189	7	5	1	463
Insurance profit	**805**	**230**	**135**	**7**	**1**	**1,178**
Profit/(loss) from fee based business	-	4	1	-	(3)	2
Share of profit from associates	-	1	-	19	-	20
Total divisional results	**805**	**235**	**136**	**26**	**(2)**	**1,200**
Insurance Ratios						
Loss ratio	67.7%	63.7%	64.4%	57.1%		65.6%
Expense ratio	18.9%	34.6%	27.5%	42.2%		25.7%
Commission ratio	5.2%	15.1%	11.5%	24.4%		9.8%
Administration ratio	13.7%	19.5%	16.0%	17.8%		15.9%
Combined ratio	86.6%	98.3%	91.9%	99.3%		91.3%
Insurance margin	19.8%	10.0%	8.6%	2.5%		14.3%
Underlying insurance margin	16.0%	9.7%	16.9%			14.0%

5. CONSUMER DIVISION

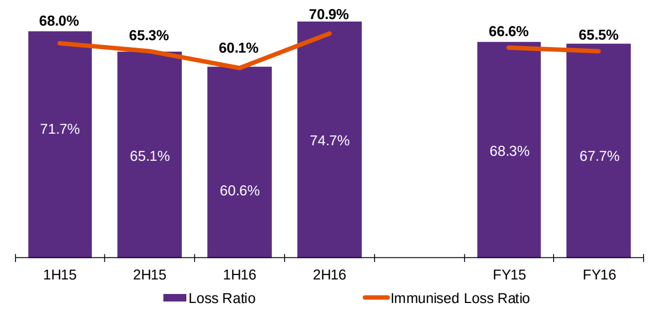
FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**2,802**	**2,812**	**2,848**	**2,953**	**5,614**	**5,801**
Gross earned premium	2,814	2,780	2,834	2,852	5,594	5,686
Reinsurance expense	(365)	(279)	(818)	(804)	(644)	(1,622)
Net earned premium	**2,449**	**2,501**	**2,016**	**2,048**	**4,950**	**4,064**
Net claims expense	(1,755)	(1,628)	(1,221)	(1,530)	(3,383)	(2,751)
Commission expense	(129)	(132)	(105)	(106)	(261)	(211)
Underwriting expense	(388)	(413)	(276)	(282)	(801)	(558)
Underwriting profit	**177**	**328**	**414**	**130**	**505**	**544**
Investment income on technical reserves	214	69	81	180	283	261
Insurance profit	**391**	**397**	**495**	**310**	**788**	**805**

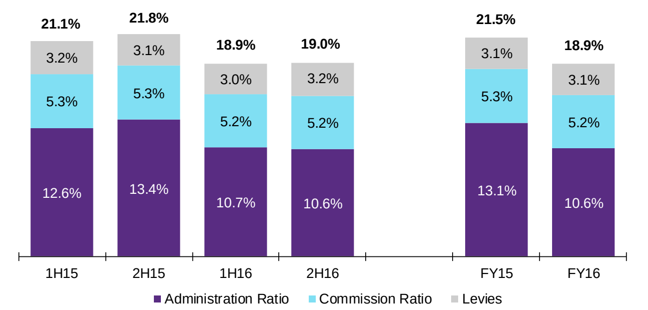
Insurance Ratios	1H15	2H15	1H16	2H16	FY15	FY16
Loss ratio	71.7%	65.1%	60.6%	74.7%	68.3%	67.7%
Immunised loss ratio	68.0%	65.3%	60.1%	70.9%	66.6%	65.5%
Expense ratio	21.1%	21.8%	18.9%	19.0%	21.5%	18.9%
Commission ratio	5.3%	5.3%	5.2%	5.2%	5.3%	5.2%
Administration ratio	15.8%	16.5%	13.7%	13.8%	16.2%	13.7%
Combined ratio	92.8%	86.9%	79.5%	93.7%	89.8%	86.6%
Immunised combined ratio	89.1%	87.1%	79.0%	89.9%	88.1%	84.4%
Insurance margin	16.0%	15.9%	24.6%	15.1%	15.9%	19.8%
Underlying insurance margin	14.0%	13.9%	15.5%	16.5%	13.9%	16.0%

INSURANCE RATIOS

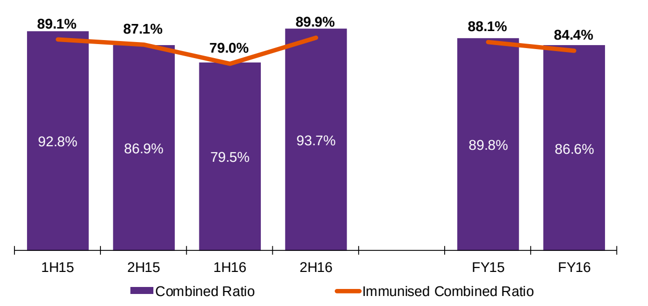
LOSS RATIO



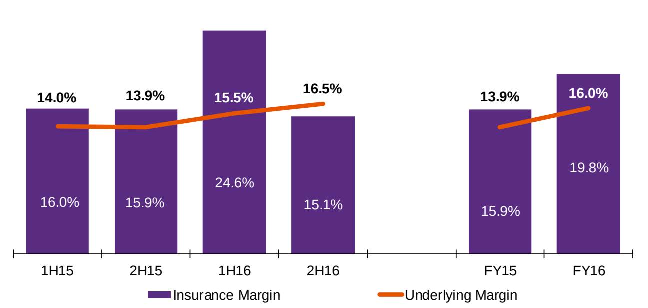
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

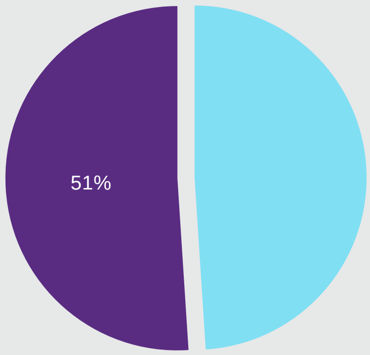


5. CONSUMER DIVISION

EXECUTIVE SUMMARY

- Consumer Division comprises Australian personal lines insurance products, including CTP
- Includes direct and intermediated (affinity & financial institution partnerships and broker & agent) channels
- Full suite of value propositions to accommodate changing customer behaviours and preferences
- FY16 GWP growth of 3.3%, driven by short tail classes
- Strong FY16 profitability despite ongoing pressures in NSW CTP – overall underlying margin of 16.0%
- Reported margin of 19.8% boosted by significant reserve releases
- Encouraging moves from NSW Government to address CTP reform

Consumer Division - % Group GWP



PREMIUMS

GWP increase of 3.3%, with sound short tail growth and flat CTP

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 3.3% to $5,801m in FY16 (FY15: $5,614m), driven by growth in short tail home and motor lines. CTP GWP was relatively flat.

Short tail personal lines represented approximately 85% of divisional GWP, and grew by 4.0%. Increased momentum was evident in 2H16, with GWP growth of 5.5% outstripping the first half's advance of 2.4%.

Short tail premium growth was dominated by rate movements, in response to higher claim frequency and repair costs. This was augmented by volume gains in motor, while home volumes were reasonably flat.

The larger established brands generated sound growth in what remained a very competitive environment. While coming off a much smaller base, Coles Insurance continued to record strong double digit growth, supported by a series of initiatives including the introduction of landlord insurance from August 2015.

FY16 also included a small initial contribution from the underwriting of Steadfast personal lines, secured as part of the Berkshire Hathaway agreement.

GWP	1H15	2H15	1H16	2H16	FY15	FY16	GWP Growth FY16 vs FY15
Motor	1,254	1,286	1,283	1,357	2,540	2,640	3.9%
Home	1,026	1,010	1,054	1,069	2,036	2,123	4.3%
Niche & Other	93	89	92	91	182	183	0.5%
Total Short Tail	**2,373**	**2,385**	**2,429**	**2,517**	**4,758**	**4,946**	**4.0%**
Long Tail	429	427	419	436	856	855	(0.1%)
Total GWP	**2,802**	**2,812**	**2,848**	**2,953**	**5,614**	**5,801**	**3.3%**

Overall motor GWP increased by 3.9%, compared to FY15, with an acceleration to 5.5% in the second half of the financial year. Approximately two-thirds of motor GWP growth was derived from rate increases.

5. CONSUMER DIVISION

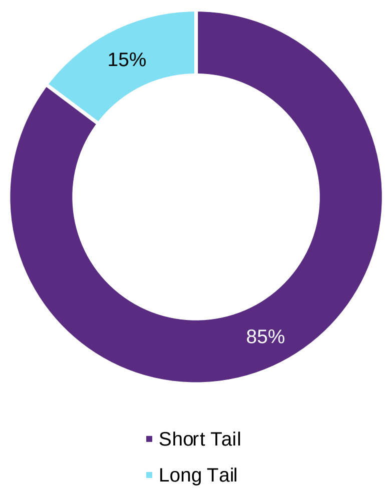
Home GWP rose by 4.3% compared to FY15, essentially driven by increased rates to address higher average claim costs.

Due and paid renewal levels for both motor and home remained high, exceeding those of FY15.

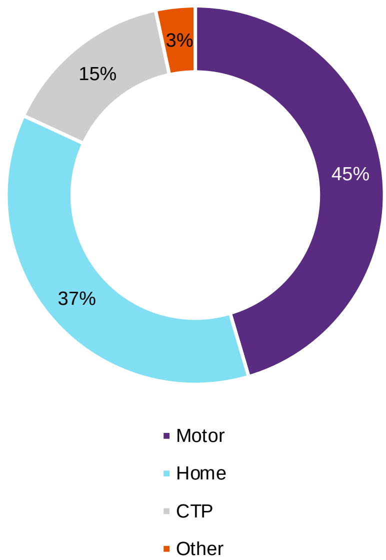
Business sourced from financial partners remained subdued, in an increasingly competitive market. Recent smaller account gains provided some offset to the cessation of the relationship with Credit Union Australia (from the end of January 2015), which in isolation saw a net reduction in GWP compared to FY15 of ~$20m.

Niche and other short tail lines GWP, comprising boat, caravan, classic car, credit card, warranty and other specialty products, was similar to FY15.

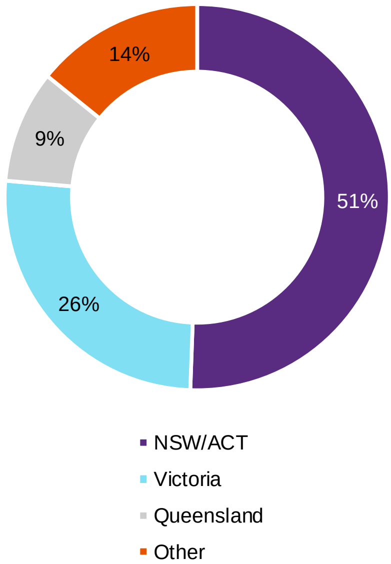
FY16 GWP BY TAIL



FY16 GWP BY CLASS



FY16 SHORT TAIL GWP BY STATE



Overall long tail (CTP) GWP contracted by 0.1%, compared to FY15, including growth of 2.1% in 2H16. The year-on-year movement in long tail GWP included:

- A lower share of NSW CTP registrations (on a 12-month rolling average basis) to 34.2% (FY15: 35.6%). This was in line with expectations, reflecting a deliberate reduction in exposure to less profitable business. The impact of lower volume was more than offset by the implementation of rate increases to address claim inflation issues. These comprised 4% at the end of August 2015 and another 4% from February 2016. An additional rate increase of approximately 2% was approved from 1 July 2016; and
- Further loss of market share in the ACT, where the entry of three brands of a competing entity from July 2013 and aggressive pricing activity has seen IAG's share reduce to 55% by June 2016 (December 2015: 66%).

Flat CTP GWP reflects mix of higher rates in NSW and lower market share in ACT and NSW

The Consumer Division continued to enhance its digital sales and service functionality during FY16, particularly in the self service centre and digital claims. Enhancements included:

- A new content management system in conjunction with a website redesign, including a 'Self Service Dashboard' that allows customers to have an instant view of actions required and an optimised display of products and covers;

- Improvement of web chat capability with co-browsing as a stand-out feature; and
- A responsive digital motor claims capability, optimising the experience for customers lodging claims on mobile devices.

The Consumer Division's online sales channel continued to register substantial growth over the course of FY16, with like-for-like volumes increasing by nearly 20%.

The Consumer Division implemented a range of product, service and distribution initiatives in FY16. In addition to the Coles Insurance landlord insurance product, expansion of the customer service proposition included:

- The opening of the first of a planned network of kiosks in May 2016, showcasing NRMA Insurance's online service portal while also offering choice of service by traditional methods;
- 'SaferHomes.com.au', educating customers on the key risks in their suburbs;
- A market-leading ride-sharing 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 Insurance, SGIO and SGIC motor customers.

REINSURANCE EXPENSE

The Consumer Division's reinsurance expense was $1,622m in FY16, compared to $644m in FY15. The substantial uplift reflects inclusion of Berkshire Hathaway's 20% share of gross earned premium under the quota share arrangement which commenced on 1 July 2015, with some offset from the absence of the one-off cost recognised in 1H15 from the CTP ADC.

Higher reinsurance expense owing to Berkshire Hathaway quota share effect

Excluding the reinsurance expense directly stemming from the Berkshire Hathaway quota share arrangement and the CTP ADC, the Consumer Division's FY16 reinsurance expense fell by nearly 20%. This reflects the net effect of:

- Lower catastrophe cover costs from the calendar 2015 and 2016 renewals;
- Reduced reinsurance needs following inception of the Berkshire Hathaway quota share, notably from 2H16 onwards; and
- Full realisation of Wesfarmers-related synergies.

CLAIMS

The Consumer Division reported a lower immunised loss ratio of 65.5% in FY16 (FY15: 66.6%). This was influenced by higher prior period reserve releases and lower natural peril incidence, compared to FY15, with some offset from elevated frequency in NSW CTP and higher motor frequency.

Lower loss ratio driven by higher reserve releases and lower natural peril incidence

The reported loss ratio of 67.7% is also lower than that of FY15 (68.3%), and contains an unfavourable risk free discount rate adjustment of $88m, which was marginally higher than that of FY15 ($84m).

5. CONSUMER DIVISION

Reserve Releases

Reserve releases of $254m were over 10% higher than those reported in FY15 ($229m), and continued to be predominantly sourced from the NSW and ACT CTP portfolios. This follows further favourable experience against existing underlying assumptions, notably claim size, finalisation rates and inflation, particularly in respect of 2014 and prior accident years.

While amplified by the Berkshire Hathaway quota share impact on reported NEP, FY16 reserve releases were 6.2% of NEP, up from 4.6% in FY15. Future reserve release levels are expected to moderate.

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	65	164	167	87	229	254
Impact on insurance margin	**2.7%**	**6.6%**	**8.3%**	**4.2%**	**4.6%**	**6.2%**

Natural Perils

Adverse perils outcome driven by east coast low event in June 2016

Losses from natural perils (net of reinsurance) totalled $390m, which was $38m higher than the allowance for the year. This outcome was assisted by some protection from the Group's aggregate cover in 1H16, and was an improvement against FY15 when net natural peril claim costs exceeded allowance by over $100m.

The largest peril event in FY16 was the east coast low in June 2016, which contributed a claims cost of nearly $90m and drove a greater than $80m deficit against allowance in 2H16. Other significant peril events for the Consumer Division during FY16 included the:

- NSW and Adelaide hail storms in September 2015;
- Victorian bushfires in December 2015;
- Victorian and NSW thunderstorms in January 2016; and
- Geelong and Sydney flash floods in January 2016.

The higher natural perils cost in FY15 was driven by two notable events, the Brisbane storm in November 2014 and the east coast low in April 2015, which each comfortably exceeded $100m.

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Natural peril claim costs	(245)	(314)	(131)	(259)	(559)	(390)
Natural peril allowance	229	229	176	176	458	352
Impact on insurance profit	**(16)**	**(85)**	**45**	**(83)**	**(101)**	**(38)**
Impact on insurance margin	**(0.6%)**	**(3.4%)**	**2.2%**	**(4.0%)**	**(2.0%)**	**(0.9%)**

Claims Experience

Overall underlying claims performance deteriorated, with increase in short tail frequency

The Consumer Division's underlying claims performance in FY16 deteriorated against the preceding year, with notable features being an increase in short tail frequency, particularly in motor, and ongoing pressure from elevated frequency and legal representation issues in NSW CTP.

Short tail claims experience in the year was characterised by:

- Increased average motor collision costs, mainly owing to total loss experience;
- An increase in motor collision frequency, influenced by factors such as increased motor vehicle usage, with a clear correlation to cheaper petrol prices;

5. CONSUMER DIVISION

- Higher average home fire and water claim costs, including some large fire claims; and
- An offset from further improvement in customer and quality outcomes from the motor repair relationship model, helping to counter inflationary repair cost pressures. The model has been expanded into non-urban areas, and extended across most brands.

The unfavourable experience in NSW CTP claim lodgements continued over the course of FY16, with elevated frequency most significant for minor severity, legally represented claims. In response, the Consumer Division has:

- Raised its pricing, following regulatory approval;
- Increased its anti-fraud surveillance;
- Actively managed its portfolio, as evidenced by reduced market share; and
- Assisted the government in progressing its reform agenda.

Some stabilisation in NSW CTP was evident in 2H16 as:

- Cumulative rate increases took greater effect;
- Claim frequency stabilised at slightly lower levels than those assumed at the end of 1H16; and
- Average claim size assumptions were eased back from those held at 31 December 2015, following examination of emerging claim experience.

Some stabilisation in NSW CTP evident in 2H16

In June 2016 the NSW Government released its plan to reform the state's CTP scheme. IAG supports the government's proposals, however these are not expected to take effect until July 2017 at the earliest.

The Consumer Division's CTP portfolio remains subject to a 30% quota share agreement with Munich Re. This operates alongside the 20% quota share arrangement with Berkshire Hathaway for all consolidated business, meaning 50% of the CTP book was subject to quota share in FY16, and beyond.

EXPENSES

Slight reduction in expenses, ex-quota share effects

The Consumer Division's reported expenses totalled $769m in FY16, compared to $1,062m in FY15. The 28% 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 countervailing influences of:

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

The reported expense ratio improved to 18.9% (FY15: 21.5%), aided by inclusion of the exchange commission. On an ex-levies basis the Consumer Division's administration ratio was 10.6% (FY15: 13.1%).

5. CONSUMER DIVISION

INSURANCE PROFIT

The Consumer Division reported an insurance profit of $805m, compared to $788m in FY15. This equates to a higher reported insurance margin of 19.8% (FY15: 15.9%), which included the net effect of:

- Enhancement from the Berkshire Hathaway quota share;
- The benefit of higher reserve releases;
- A reduced negative effect from net natural peril claim costs exceeding the associated allowance; and
- Absorption of an adverse credit spread movement of $40m, compared to FY15.

Strong underlying margin of 16.0% in FY16, enhanced by quota share effect

The Consumer Division's underlying performance remained strong, with an underlying margin of 16.0% (FY15: 13.9%) including an uplift of ~250bps from the Berkshire Hathaway quota share. This outcome was despite ongoing pressures from elevated claims issues in NSW CTP and an increase in motor claim frequency. The underlying margin in 2H16 was 16.5%.

A minor drag on reported and underlying margin was the strong growth from the lower margin 'challenger' proposition, comprising Coles Insurance, SGIO, SGIC and Berkshire Hathaway personal lines via Steadfast.

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	65	164	167	87	229	254
Natural perils	(245)	(314)	(131)	(259)	(559)	(390)
Natural peril allowance	229	229	176	176	458	352
Credit spreads	23	(4)	(9)	(12)	19	(21)
Reserve releases	2.7%	6.6%	8.3%	4.2%	4.6%	6.2%
Natural perils	(10.0%)	(12.6%)	(6.5%)	(12.6%)	(11.3%)	(9.6%)
Natural peril allowance	9.4%	9.2%	8.7%	8.6%	9.3%	8.7%
Credit spreads	0.9%	(0.2%)	(0.4%)	(0.6%)	0.4%	(0.5%)

MARKET REGULATION AND REFORM

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 published a further Discussion Paper and referred the issue of an 'effects test' for further consultation. The government announced in March 2016 it will amend Section 46 of the Competition and Consumer Act: the misuse of market power provision. The Government will consult on Exposure Draft legislation before introducing it to Parliament later in 2016;

The industry remains subject to a number of legislative reviews

5. CONSUMER DIVISION

- The Australian Government is conducting a Review of the Australian Consumer Law, including the Unfair Contract Terms protections. An Interim Report will be released in the second half of 2016, with a Final Report by March 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, and the Government is expected to release a response in 2016;
- The NSW Government announced its proposal for CTP Scheme reform in June 2016. The Government has decided to proceed with the implementation of a hybrid no-fault scheme, which introduces defined benefits for low severity injuries, retains access to common law for the most seriously injured and, for the first time, extends protection to at-fault road users. The reform proposals deal with a number of the issues identified in the July 2014 NSW Standing Committee on Law and Justice 12th review of the Motor Accidents Authority, including: encouraging greater competition in the NSW CTP scheme; increased reporting on scheme performance; legal costs; and reviewing insurer profits in the NSW CTP scheme. The Government has appointed an Expert Reference Panel which will assist the State Insurance Regulatory Authority (SIRA) to design the next level details of the scheme. The Expert Panel is to report back to the Government in August 2016. The Government aims to have legislation passed in late 2016, and for the new scheme to be in place from 1 July 2017; 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 and businesses.

MARKET ENVIRONMENT AND OUTLOOK

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

The personal insurance market in Australia is expected to remain competitive, with modest growth prospects. In this environment, a renewed industry focus on quality underwriting, increased efficiency and cost reduction is anticipated.

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, continue to create 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 FY16, reinforcing its relevance to consumers.

The Consumer Division is expected to maintain its strong profitability and market position owing to its continued focus on customer experience (including non-price value engagement) and cost effectiveness. The development of clear customer value propositions as part of its multi-brand strategy is allowing successful execution of its customer-led strategies.

5. CONSUMER DIVISION

The performance of the NSW CTP portfolio is expected to remain under pressure in FY17, with rate increases only partially addressing the impact of increased claims frequency.

GWP growth in FY17 will be assisted by the division’s entry into the South Australian CTP market where, operating under the SGIC brand, it commenced as one of four participants from 1 July 2016 with a 20% share. The South Australian CTP scheme’s current annual premium pool is estimated to be around $400m.

6. BUSINESS DIVISION

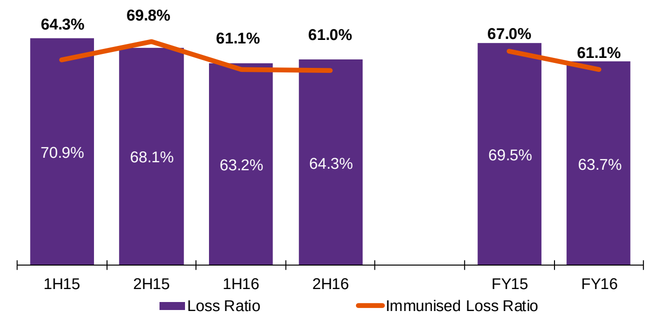
FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**1,514**	**1,678**	**1,419**	**1,560**	**3,192**	**2,979**
Gross earned premium	1,673	1,594	1,597	1,525	3,267	3,122
Reinsurance expense	(122)	(90)	(413)	(406)	(212)	(819)
Net earned premium	**1,551**	**1,504**	**1,184**	**1,119**	**3,055**	**2,303**
Net claims expense	(1,099)	(1,024)	(748)	(719)	(2,123)	(1,467)
Commission expense	(229)	(221)	(185)	(162)	(450)	(347)
Underwriting expense	(301)	(291)	(226)	(222)	(592)	(448)
Underwriting profit/(loss)	**(78)**	**(32)**	**25**	**16**	**(110)**	**41**
Investment income on technical reserves	180	23	75	114	203	189
Insurance profit/(loss)	**102**	**(9)**	**100**	**130**	**93**	**230**
Profit/(loss) from fee based business	9	7	11	(7)	16	4
Share of profit from associates	-	-	1	-	-	1
Total divisional result	**111**	**(2)**	**112**	**123**	**109**	**235**

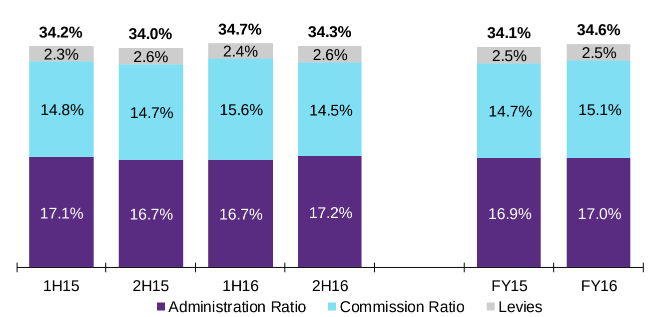
Insurance Ratios	1H15	2H15	1H16	2H16	FY15	FY16
Loss ratio	70.9%	68.1%	63.2%	64.3%	69.5%	63.7%
Immunised loss ratio	64.3%	69.8%	61.1%	61.0%	67.0%	61.1%
Expense ratio	34.2%	34.0%	34.7%	34.3%	34.1%	34.6%
Commission ratio	14.8%	14.7%	15.6%	14.5%	14.7%	15.1%
Administration ratio	19.4%	19.3%	19.1%	19.8%	19.4%	19.5%
Combined ratio	105.1%	102.1%	97.9%	98.6%	103.6%	98.3%
Immunised combined ratio	98.5%	103.8%	95.8%	95.3%	101.1%	95.7%
Insurance margin	6.6%	(0.6%)	8.4%	11.6%	3.0%	10.0%
Underlying insurance margin	10.7%	10.2%	10.7%	8.6%	10.5%	9.7%

INSURANCE RATIOS

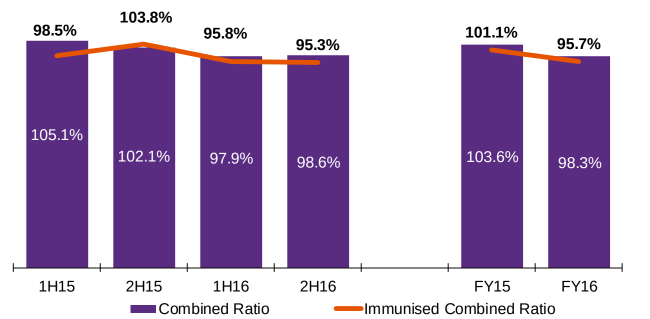
LOSS RATIO



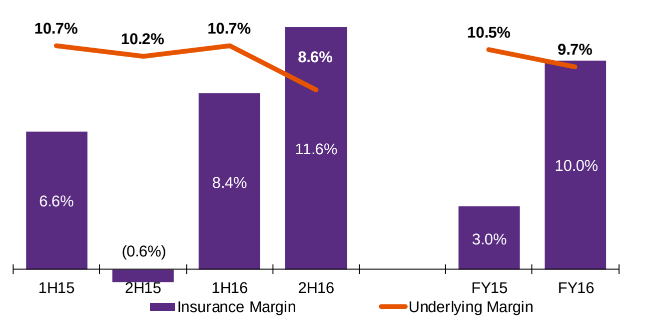
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

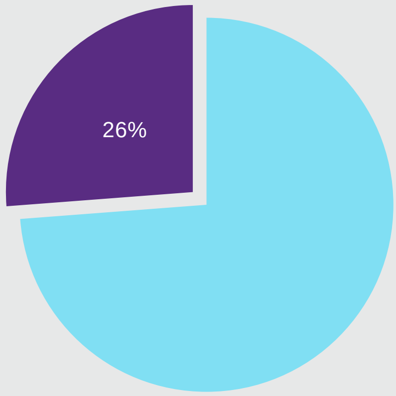


6. BUSINESS DIVISION

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
- FY16 GWP decline of 6.7% (2H16: 7.0%), primarily from volume
- Underwriting discipline maintained in an environment of soft commercial market conditions
- Slightly lower underlying margin of 9.7%, reflecting tough market conditions and benefit of Wesfarmers integration synergies – realised as planned
- Higher reported margin of 10.0% (FY15: 3.0%) includes higher reserve releases and a much-reduced adverse perils effect
- Continued tough short term outlook anticipated, but growing signs of rate improvement

Business Division - % Group GWP



PREMIUMS

The Business Division reported GWP of $2,979m, representing a contraction of 6.7% compared to FY15 ($3,192m). Retention levels were consistent throughout the year across most portfolios, with overall GWP reflecting lower average rates, reduced new business volumes, strong competition in property and strata, tough market conditions in workers' compensation and specific business transfers.

In the face of the prolonged 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 remaining within the expected range.

The majority of the reduction in GWP was driven by lower volumes, with average rates slightly lower on a full year basis. Modest rate rises were implemented from the tail end of calendar 2015 onwards, and have held, in portfolios such as business packages and commercial motor.

In 2H16, GWP contracted at a slightly faster pace of 7.0%, driven by remedial action which affected volumes, notably in the areas of workers' compensation and property, with a slight offset from higher rates. The 6.3% decline in 1H16 GWP contained a greater input from lower average rates.

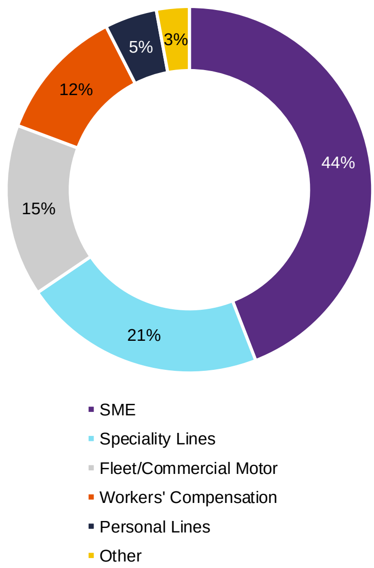
The key June renewal period, which represents approximately 20% of the Business Division's annual GWP, saw rate increases achieved and retention holding up. New business levels were slightly lower in a number of portfolios.

Individually significant contributions to the reduction in GWP in FY16 were:

- An 8% fall (approximately $25m) in workers' compensation GWP, where weaker economic conditions in Western Australia impacted wage rolls, poorer performing accounts were exited and some offset occurred from new business wins, particularly in 2H16;
- The transfer of large-corporate property risks to Berkshire Hathaway, under the terms of the strategic relationship;
- A 27% decline (approximately $47m) in strata GWP, where adherence to acceptable prices in the face of fierce competition from new entrants has resulted in lower volume and retention levels; and

GWP declined by 6.7% in soft market environment

FY16 GWP BY CLASS



6. BUSINESS DIVISION

- Lower volumes in the fleet and commercial motor portfolios, including the transfer of former Wesfarmers heavy motor volumes to the specialist NTI joint venture (50%-owned by IAG).

A number of portfolios, most notably liability, experienced moderate growth.

The Business Division continues to pursue an underwriting agency growth strategy, with this area delivering GWP growth of 5% despite weaker strata volumes. Excluding strata, growth was 19%.

FY16 included the first contribution from the SURA specialty underwriting business acquired in FY15. In addition, the Business Division entered into a partnership with Pacific Indemnity to write specialised professional risk products.

Long tail classes represented over 27% of the Business Division's GWP in FY16, which was consistent with the prior year.

Further initiatives to improve product offering and strengthen partnerships

The Business Division continues to enhance its product offering, strengthen its partnerships and improve the quality of customer service delivered. Initiatives during FY16 included:

- Continued emphasis on how customers do business with Business Division, including digital and platform capability;
- The launch of Cyber Defence, a product that protects against damage from cyber incidents such as privacy breach, system damage, extortion, computer virus, crime and hacking; and
- Market-leading delivery of customer relationship management, including mobile and data solutions for both customers and partners.

The Business Division's CGU brand recently extended its support of Tropfest, the world's largest short film festival, by signing a three-year sponsorship deal. This initiative is expected to help create new opportunities for Tropfest, and the many small Australian businesses that rely on it, to grow and evolve.

Continued industry recognition for CGU

Business Division's strong levels of service and partnership capabilities have been reflected in 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 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 Insurer Survey by Brokers, winning seven of the 11 categories. In total more than 1,100 brokers took part in the survey;
- In December 2015, the latest AIMS (a joint venture between AUB Group and IBNA) network survey reaffirmed the division's strong position amongst brokers with most products performing well in terms of overall satisfaction;
- In May 2016, CGU was named Domestic Insurer of the Year by the Council of Queensland Insurance Brokers, winning the award for the fourth consecutive year; and
- In June 2016, CGU was voted 'Insurer of the Year' by Insurance Business magazine for the second year in a row. The award, which is voted for by insurance brokers, gave CGU the most votes across 11 award categories.

6. BUSINESS DIVISION

REINSURANCE EXPENSE

The Business Division's reinsurance expense was $819m in FY16, compared to $212m in FY15. The substantial uplift reflects inclusion of Berkshire Hathaway's 20% share of gross earned premium under the quota share arrangement which commenced on 1 July 2015.

Excluding the reinsurance expense directly stemming from the Berkshire Hathaway quota share arrangement, the Business Division's FY16 reinsurance expense was lower. This outcome includes:

- Lower catastrophe cover costs from the calendar 2015 and 2016 renewals;
- Reduced reinsurance needs following inception of the Berkshire Hathaway quota share, notably from 2H16 onwards; and
- Full realisation of Wesfarmers-related synergies.

Higher reinsurance expense owing to Berkshire Hathaway quota share effect

CLAIMS

The Business Division's FY16 immunised loss ratio of 61.1% was lower than FY15's 67.0%. The improved outcome incorporates a much-reduced adverse net natural peril claim experience and higher reserve releases, compared to FY15.

While underlying claims performance was broadly consistent with the prior year, some deterioration was evident in 2H16. The benefits of improved underwriting, higher claim deductibles and indemnity cost savings were more than offset by the cumulative effect of average rate reduction. In addition, an increase in the frequency of both motor and large property claims was observed.

Slight deterioration in underlying claims performance, reflecting pressure on NEP

Long tail classes continued to experience low claims inflation, reflective of the general economic environment, together with favourable frequency.

The overall reported loss ratio improved to 63.7% (FY15: 69.5%), and contained an unfavourable risk free discount rate adjustment of $60m, compared to an unfavourable effect of $76m in FY15.

Reserve Releases

Prior period reserve releases of $86m were 26% higher than those reported in FY15 ($68m) and, at 3.7% of NEP, were well above IAG'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.

Higher reserve releases, above long term expectation

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	25	43	29	57	68	86
Impact on insurance margin	**1.6%**	**2.9%**	**2.4%**	**5.1%**	**2.2%**	**3.7%**

Natural Perils

Net natural peril claim costs amounted to $230m in FY16, which was $40m higher than the related allowance. They were nearly $200m lower than those incurred in FY15, with the outcome assisted by protection from the Group's aggregate cover in 1H16.

Perils above allowance, despite some relief from aggregate cover

The most significant peril event for the Business Division during FY16 was the east coast low in June 2016, which contributed a net claim cost of nearly $30m. Other notable events were the:

6. BUSINESS DIVISION

- Queensland hail storms in October 2015;
- South Australian bushfires in November 2015;
- South Sydney tornado and hail in December 2015; and
- Geelong and Sydney flash floods in January 2016.

The higher perils incidence in FY15 contained a number of reasonable-sized losses, most notably that from the Brisbane storm in November 2014.

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Natural peril claim costs	(164)	(262)	(133)	(97)	(426)	(230)
Natural peril allowance	74	74	95	95	148	190
Impact on insurance profit	**(90)**	**(188)**	**(38)**	**(2)**	**(278)**	**(40)**
Impact on insurance margin	**(5.8%)**	**(12.5%)**	**(3.2%)**	**(0.2%)**	**(9.1%)**	**(1.7%)**

EXPENSES

The Business Division's reported expenses totalled $795m in FY16, compared to $1,042m in FY15. The 24% 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 cost of increased reinvestment in the business, including higher project-related costs; and
- An offset from further synergies from completion of the integration of the former Wesfarmers business and the move to a revised operating model, as duplicate functions were eliminated. Targeted synergies were realised in line with plan.

The Business Division's reported expense ratio was 34.6% (FY15: 34.1%), and, on an ex-levies basis, its administration ratio was marginally higher at 17.0% (FY15: 16.9%). 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 15.1% (FY15: 14.7%), reflecting changes in business mix and the impact of softer market conditions on reported NEP. The commission ratio improved slightly in 2H16, to 14.5%, compared to the corresponding half in FY15.

Flat expenses, excluding quota share effects

INSURANCE PROFIT

The Business Division reported a higher insurance profit of $230m, compared to FY15 ($93m). This equates to a higher reported insurance margin of 10.0% (FY15: 3.0%) which includes the net effect of:

- Enhancement from the Berkshire Hathaway quota share;
- Lower net natural peril claim costs;
- Higher prior period reserve releases; and
- An adverse credit spread movement of $30m.

Underlying margin of 9.7% - quota share effect offset by tough commercial market conditions

6. BUSINESS DIVISION

The Business Division produced a FY16 underlying margin of 9.7%, which was slightly lower than FY15 (10.5%). After allowing for the favourable quota share effect of approximately 250bps, a weaker underlying performance reflected the impact of tough commercial market conditions, with a partial offset from the additional synergies realised 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$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	25	43	29	57	68	86
Natural perils	(164)	(262)	(133)	(97)	(426)	(230)
Natural peril allowance	74	74	95	95	148	190
Credit spreads	17	(3)	(6)	(10)	14	(16)
Reserve releases	1.6%	2.9%	2.4%	5.1%	2.2%	3.7%
Natural perils	(10.6%)	(17.4%)	(11.2%)	(8.7%)	(13.9%)	(10.0%)
Natural peril allowance	4.8%	4.9%	8.0%	8.5%	4.8%	8.3%
Credit spreads	1.1%	(0.2%)	(0.5%)	(0.9%)	0.5%	(0.7%)

FEE BASED INCOME

Lower fee based result, owing to lower incentive and service fees

In FY16, net income from fee based operations was $4m, compared to $16m in FY15.

The principal source of fee income for the Business Division is its role as agent under both the NSW and Victorian workers' compensation schemes, which are underwritten by the respective state governments. While standard fees covering expenses are reasonably predictable, total fee income is volatile on a half-by-half basis owing to the receipt of performance fees and prior year experience adjustments, which tend to be received in the opening half of the financial year.

The FY16 result contained $5m of prior period fee income for the Victorian scheme, which was slightly lower than the $6m received in FY15. Excluding this income, the underlying result was $11m lower than FY15.

In Victoria, despite maintaining a high overall ranking, lower incentive fee income arose from the scheme's reduced performance across all measures. Income from the NSW scheme was adversely affected by a reduction in service fees paid to all agents following contract revisions, along with lower incentive fees.

In March 2016 CGU was named as one of five successful agents following the Victorian scheme tender process, for a period of a further five years to 30 June 2021. The current three-year contract in NSW expires in December 2017.

Overall fee income is not expected to return to FY15 levels in the medium term, following revision to the remuneration model in Victoria.

A secondary source of fee income is Business Division's interest in authorised representative brokers, via its ownership of National Adviser Services (NAS). With this segment representing one of the most rapidly growing parts of the broader broker market, IAG has acquired Westcourt General Insurance Brokers with effect from 1 July 2016. This will be integrated with NAS to create the largest business in this market.

MARKET REGULATION AND REFORM

The industry remains subject to a number of legislative reviews

There are several Australian legislative reviews and inquiries are underway with potential implications for the Business Division, as outlined on pages 29 and 30 of the FY16 Investor Report.

6. BUSINESS DIVISION

MARKET ENVIRONMENT AND OUTLOOK

Difficult intermediated market conditions to persist in the short term, as rate increases across a number of portfolios indicate cyclical bottoming

While difficult conditions continue to prevail, the Australian commercial market is demonstrating growing evidence of a bottoming in cyclical conditions. The level of overall rate reductions is narrowing and rate increases are being successfully implemented across a growing number of product lines, particularly at the SME end of the scale, which represents Business Division's heartland.

Competition in the intermediated market continues to be strong. Participants also face the challenge of growing change in customer behaviour, including choice of distribution channel, manner of engagement with insurers and increasing demands for flexible service propositions.

The direct market, which represented 23% of Business Division's GWP in FY16, is expected to remain stable.

Although market conditions are expected to remain challenging in the short term, the Business Division is well-positioned to leverage its expertise in innovation, expand its distribution opportunities and improve its customer experience.

A further contraction in GWP is anticipated in FY17, as the division maintains its focus on sustainable profitability, while pursuing rational pricing of its core business with targeted commercial offerings.

As part of the targeted portfolio review process, IAG has sold the distribution rights to Swann Insurance's motor dealer, finance brokers and fleet network, with effect from early August 2016. This divestment will reduce GWP by approximately $130m, compared to FY16, and will allow Swann Insurance to focus on its core motorcycling offer.

The FY17 insurance margin is expected to remain under pressure, reflecting the earned-through effect of past rate reductions. The margin will continue to be supported by claims management and other operational efficiencies, including a whole year's effect of the Wesfarmers integration and revised operating model synergy run rate, which was realised towards the end of FY16.

7. OPERATIONS

OPERATIONS

Operations provides support to the Australian customer-facing divisions and is responsible for claims and operational functions such as procurement and supply chain management. It was formed as part of the new organisational structure which took effect from 9 December 2015, and has assumed much of the work formerly carried out by Enterprise Operations.

FY16 ACTIVITIES

In FY16, Operations focused on designing its new operating model and delivering unrealised efficiencies and synergies from past initiatives. With an underlying emphasis on customer and service delivery, key actions during FY16 included:

- The realisation of residual benefits from the combination of the integration of the former Wesfarmers business and the move to a new Australian operating model, as implemented from mid-calendar 2014. IAG met the targeted run rate of $180m of pre-tax non-reinsurance benefits by the conclusion of FY16;
- Consolidation of claims into long tail and short tail platforms to simplify processes across brands, leverage scale and improve customer service;
- Further deployment and enhancement of the Guidewire claims centre, covering areas such as home lodgement, improved ease of use for motor claims, and lodgement and enquiry for intermediated claims; and
- Ongoing consolidation of preferred repairer networks in home and motor, delivering improved customer service and cost outcomes.

Residual Wesfarmers-related benefits realised, while next phase of operating model development planned

FY17 PRIORITIES

Key priorities and initiatives planned to be undertaken by Operations during FY17 are part of a broad-based programme to improve customer service and IAG's own operating efficiency. These include:

- Expansion of the operational partnering programme, entailing the outsourcing and offshoring of activities to global service suppliers that offer superior expertise and economies of scale;
- Improved management of personal injury claims to match claim complexity with capability, optimising service and cost outcomes;
- Increased utilisation of preferred supply chain partners in both property and motor claims;
- Embedding IAG's supplier management framework, with further consolidation and leverage of chosen suppliers to increase value and reduce risk; and
- Consolidation of the property footprint and increased adoption of flexible working practices.

Operational partnering and leveraging of claims capabilities to deliver further benefits

8. NEW ZEALAND

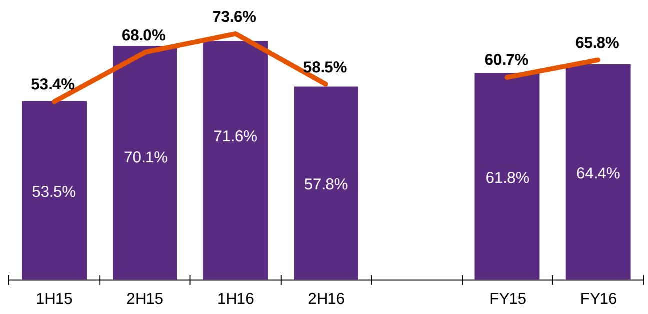
FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**1,116**	**1,151**	**1,070**	**1,112**	**2,267**	**2,182**
Gross earned premium	1,148	1,151	1,101	1,100	2,299	2,201
Reinsurance expense	(143)	(151)	(340)	(283)	(294)	(623)
Net earned premium	**1,005**	**1,000**	**761**	**817**	**2,005**	**1,578**
Net claims expense	(538)	(701)	(545)	(472)	(1,239)	(1,017)
Commission expense	(121)	(121)	(96)	(85)	(242)	(181)
Underwriting expense	(178)	(192)	(126)	(126)	(370)	(252)
Underwriting profit/(loss)	**168**	**(14)**	**(6)**	**134**	**154**	**128**
Investment income on technical reserves	25	37	17	(10)	62	7
Insurance profit	**193**	**23**	**11**	**124**	**216**	**135**
Profit from fee based business	2	2	1	-	4	1
Total divisional result	**195**	**25**	**12**	**124**	**220**	**136**

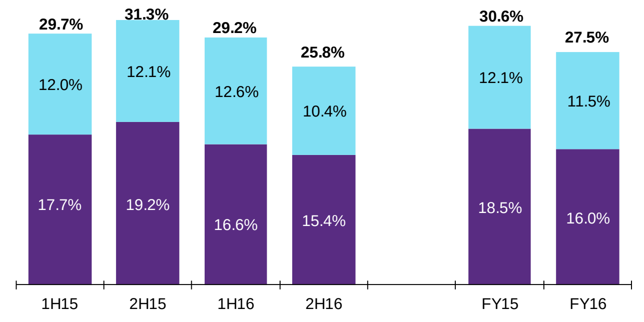
Insurance Ratios	1H15	2H15	1H16	2H16	FY15	FY16
Loss ratio	53.5%	70.1%	71.6%	57.8%	61.8%	64.4%
Immunised loss ratio	53.4%	68.0%	73.6%	58.5%	60.7%	65.8%
Expense ratio	29.7%	31.3%	29.2%	25.8%	30.6%	27.5%
Commission ratio	12.0%	12.1%	12.6%	10.4%	12.1%	11.5%
Administration ratio	17.7%	19.2%	16.6%	15.4%	18.5%	16.0%
Combined ratio	83.2%	101.4%	100.8%	83.6%	92.4%	91.9%
Immunised combined ratio	83.1%	99.3%	102.8%	84.3%	91.3%	93.3%
Insurance margin	19.2%	2.3%	1.4%	15.2%	10.8%	8.6%
Underlying insurance margin	15.9%	15.9%	18.4%	15.5%	15.9%	16.9%

INSURANCE RATIOS

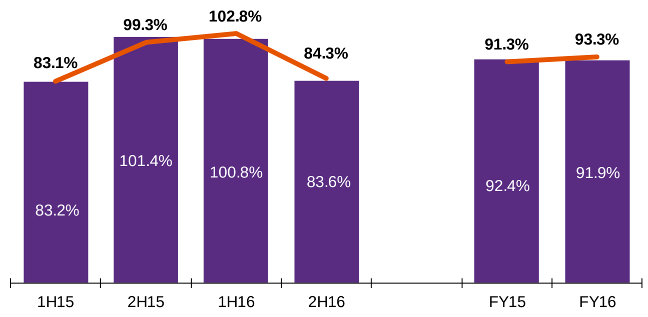
LOSS RATIO



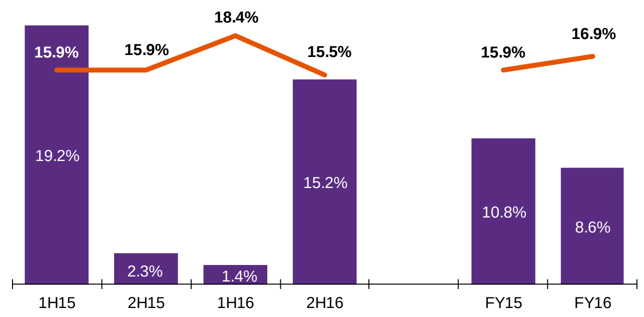
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

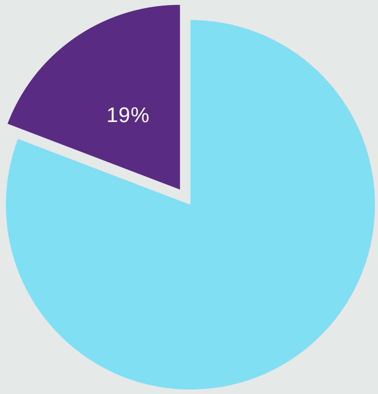


8. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- GWP weaker by 3.7% (2.6% in local currency), as soft commercial market partially offset by personal lines growth
- Operating performance has remained strong – underlying margin of 16.9%
- Good progress on Canterbury rebuild - 93% of claims settled by number
- ADC plus increased risk margin has lifted effective cover on February 2011 event to NZ$5bn
- Integration of Lumley Insurance business successfully completed
- Strong profitability expected to be maintained in FY17

New Zealand - % Group GWP



PREMIUMS

New Zealand's reported FY16 GWP decreased by 3.7% to $2,182m, including a slightly negative foreign exchange translation effect. Local currency GWP, of NZ$2,373m, decreased by 2.6% compared to FY15 (NZ$2,436m), from the combination of:

- Softer premium rates and volume loss in commercial lines, in the face of increased industry capacity; and
- Partially offsetting GWP growth in the private motor vehicle portfolio from a combination of volume and rate increases.

The contraction in local currency GWP reduced to 1.2% in 2H16, owing to an improvement in new business volumes in key commercial lines, while solid volume and premium growth was maintained in private motor.

In March 2016, New Zealand revised its operational reporting to align closer to IAG's Australian model. The new divisional split comprises:

- Consumer, including State, AMI, bank partners and niche brands NAC and Lantern; and
- Business, including NZI and Lumley.

Consumer represented 57% of GWP in FY16 (FY15: 55%) and achieved local currency growth of over 2% compared to the prior year. Consumer remains focused on meeting customers' needs and expectations by providing greater choice of insurance offerings, ensuring affordability issues are addressed and providing positive customer experiences.

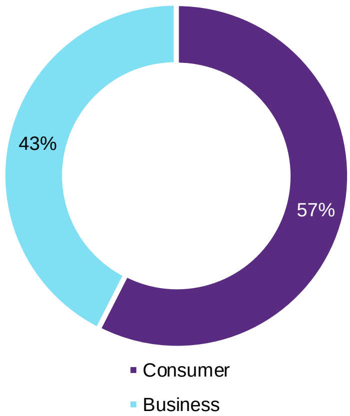
Consumer has strengthened its brand and customer offerings, with improved growth in FY16 following a number of targeted customer initiatives, including:

- AMI's *Young Drivers* campaign, which has had particular success in helping to drive private motor premium growth;
- AMI's *New New Zealander* campaign, which is meeting the needs of an increasing migrant population and has contributed to an improvement in new business volumes;
- A range of digital initiatives, such as 'quote and buy', State and AMI 'Online Accounts' and the establishment of a social media presence through Facebook; and
- More recently, the launch of AMI's *Renters Insurance* campaign.

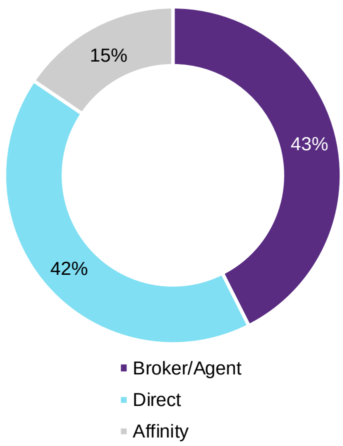
The State online channel has continued to register strong growth as it focuses on balancing customer affordability and increased competition by appropriately managing rate increases.

Sub-3% reduction in local currency GWP – soft commercial market, offset by private motor growth

FY16 GWP BY DIVISION



FY16 GWP BY CHANNEL



8. NEW ZEALAND

Business represented 43% of GWP in FY16 (FY15: 45%), and decreased by approximately 8% in local currency terms. Harsher competitive conditions continued to place pressure on commercial product lines, especially property where IAG experienced item loss and rate reductions. In this environment, Business has maintained strict adherence to its strong underwriting and margin disciplines.

Retention rates were steady across intermediated personal lines products within Business, where inflationary rate increases were applied to appropriately price for risk.

The Business division remains focused on providing certainty for its customers and being able to respond quickly, with flexibility to meet their changing needs in an extremely dynamic market. One example is NZI's recent launch of a Liability Cyber Insurance product, which helps customers navigate the risks of an increasingly digital environment.

REINSURANCE EXPENSE

New Zealand's reinsurance expense was $623m in FY16, compared to $294m in FY15. The substantial uplift reflects inclusion of Berkshire Hathaway's 20% share of gross earned premium under the quota share arrangement which commenced on 1 July 2015.

Higher reinsurance expense owing to Berkshire Hathaway quota share effect

On a like-for-like basis, New Zealand's FY16 reinsurance expense fell by over 30%, reflecting:

- Lower catastrophe cover costs from the calendar 2015 and 2016 renewals;
- Full realisation of Wesfarmers-related synergies; and
- The diminished influence of New Zealand earthquake risks on the ongoing cost of Group-wide covers.

CLAIMS

New Zealand produced an immunised loss ratio of 65.8% in FY16 (FY15: 60.7%). This contained:

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

- Lower net natural peril claim costs of $39m (FY15: $59m), which were below allowance; and
- NZ$150m of risk margin increase in respect of the February 2011 Canterbury earthquake event, as recognised in 1H16.

The reported loss ratio of 64.4% (FY15: 61.8%) includes a favourable foreign exchange effect of $24m (FY15: $15m adverse) from reinsurance recoveries tied to the FY11 earthquakes, as 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.

FY16 experienced a relatively low incidence of natural peril activity, with net related claim costs $17m below allowance. There were no significant events.

NATURAL PERILS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Natural peril claim costs	(11)	(48)	(14)	(25)	(59)	(39)
Natural peril allowance	46	46	28	28	92	56
Impact on insurance profit	**35**	**(2)**	**14**	**3**	**33**	**17**
Impact on insurance margin	**3.5%**	**(0.2%)**	**1.9%**	**0.4%**	**1.7%**	**1.1%**

8. NEW ZEALAND

The $149m strengthening of prior period reserves in FY16 is largely explained by the NZ$150m increase to risk margin in respect of the February 2011 earthquake event, which was recognised in 1H16. In addition, there was a small net reserve strengthening attributable to the adverse development of claims associated with weather events experienced in FY15.

RESERVE RELEASES	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	(2)	(134)	(143)	(6)	(136)	(149)
Impact on insurance margin	**(0.2%)**	**(13.4%)**	**(18.8%)**	**(0.7%)**	**(6.8%)**	**(9.4%)**

Working claims experience in FY16 was higher than expected, principally in the personal lines books of business where higher average claim costs and frequency were experienced. Contributory factors included increased motor vehicle usage, with a clear correlation to cheaper petrol prices, and a higher incidence of wetter weather, notably in 2H16. A number of actions are in place to address this trend, including increased excesses and greater use of preferred supplier networks.

The large claims (greater than NZ$100,000) experience in FY16 was above both expectations and FY15, driven by a higher incidence and cost of commercial and personal property fires.

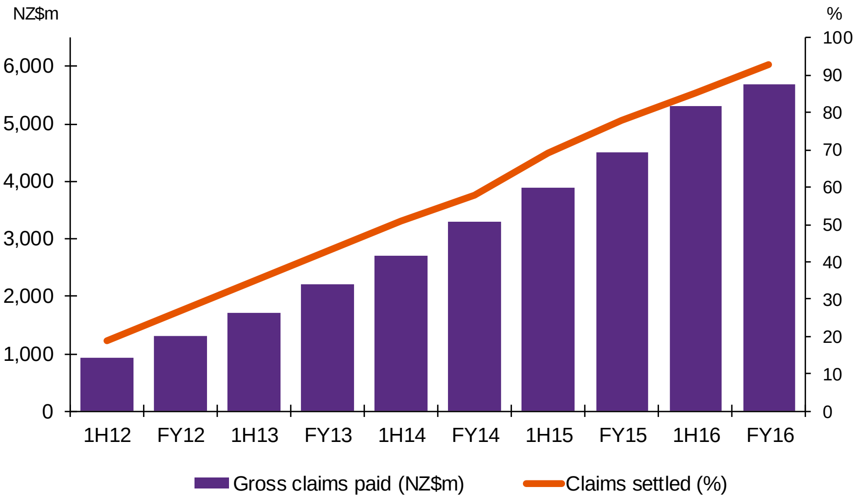
CANTERBURY REBUILD

At 30 June 2016 the New Zealand business had completed over NZ$5.7bn of claim settlements in respect of the Canterbury earthquakes (1H16: NZ$5.3bn). Approximately 93% (1H16: 85%) of all claims by number had been fully settled at that date.

Over NZ$5.7bn of FY11 earthquake claims now paid – c.93% of claims by number fully settled

Finalisation of commercial claims has continued to advance in line with expectations, with over 96% settled by 30 June 2016 (1H16: 94%). Residential claims also continue to make good progress, with over 92% settled by the end of FY16 (1H16: 83%). The majority of outstanding residential properties were either in construction or negotiation for cash settlement at 30 June 2016.

FY11 CANTERBURY EARTHQUAKES – CLAIMS SETTLEMENT*



Excludes Lumley business.

IAG continued to receive new claims from the Earthquake Commission (EQC) over the course of FY16, as they tipped over the EQC cap of NZ$100,000 (plus GST). IAG's reserving position allows for further claims that will potentially exceed the EQC's cap, including:

8. NEW ZEALAND

- Known unresolved claims;
- Resettled claims (closed claims successfully challenged by customers); and
- Claims in respect of properties currently involved in the EQC's remedial programme ('second time repairs').

It is expected that the rebuild component will be largely complete by the end of calendar 2016. Certain shared properties, newly received over-cap claims from the EQC and claims subject to dispute or litigation may take longer to settle.

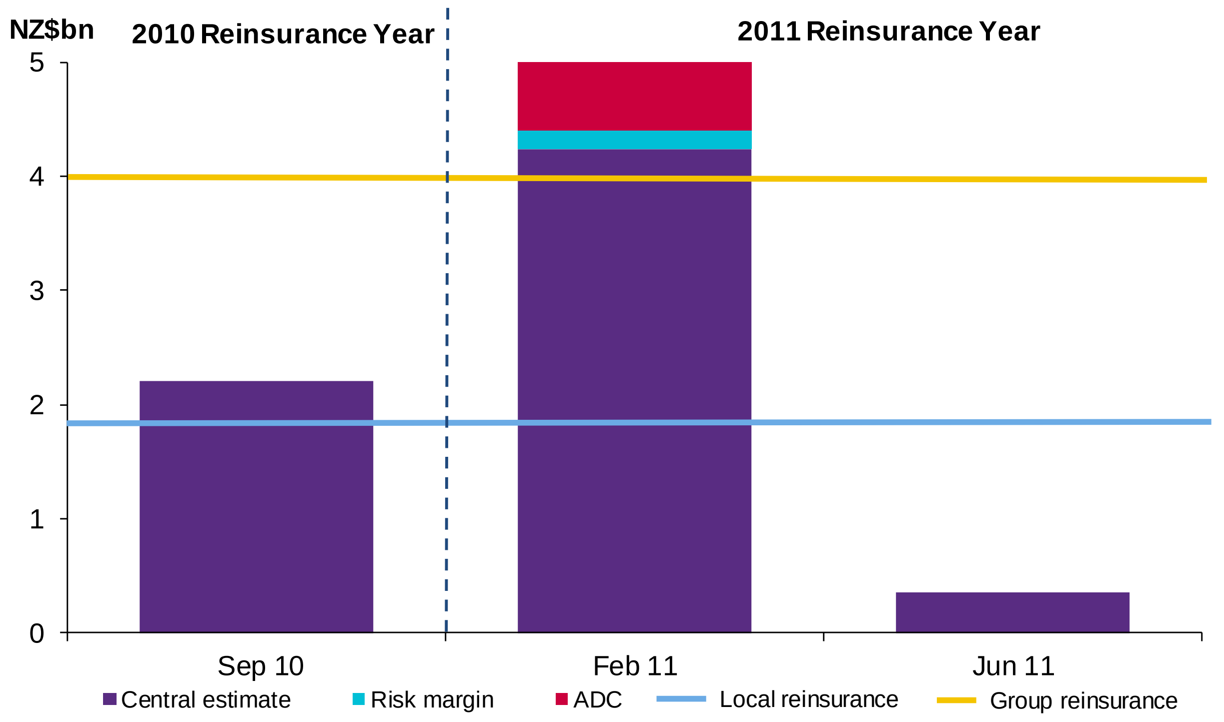
All earthquake settlement statistics presented exclude those related to the Lumley business. Although Lumley's earthquake claims are being managed by IAG, they are subject to indemnities from the previous owner which result in no further financial exposure for IAG.

In February 2016, IAG announced an adverse development cover (ADC) in respect of the February 2011 earthquake event. This provides NZ$600m of protection in excess of the reserved position (including risk margin) of NZ$4.4bn, and has materially reduced associated uncertainty.

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

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

FY11 CANTERBURY EARTHQUAKES – RESERVED POSITION AND REINSURANCE COVER



EXPENSES

New Zealand's reported expenses totalled $433m in FY16, compared to $612m in FY15. The near-30% reduction in reported expenditure is largely explained by the first-time application of the quota share arrangement which sees:

Lower expenses, excluding quota share effects

8. NEW ZEALAND

- 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.

The reported commission expense of $181m was 25% lower than FY15 ($242m), reflecting the Berkshire Hathaway quota share and reduced intermediated business volumes.

Including quota share effects, underwriting expenses fell by 32% to $252m (FY15: $370m) and produced an improved administration ratio of 16.0% (FY15: 18.5%).

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

- Disciplined cost management and a strict focus on expense savings, while continuing to invest in specific areas such as digital capability;
- Ongoing process streamlining and simplification to drive efficiencies; and
- Realisation of synergies associated with the Lumley acquisition.

The integration of the Lumley business was largely completed by December 2015, with associated synergies realised in line with original expectations.

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 $24m (FY15: $15m favourable) from the hedge attached to reinsurance recoveries on the FY11 earthquakes. 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

The New Zealand business produced a lower insurance profit of $135m in FY16 (FY15: $216m). This equates to a reported insurance margin of 8.6% (FY15: 10.8%) and reflects the combination of:

- Enhancement from the Berkshire Hathaway quota share;
- The NZ$150m increase to risk margin for the February 2011 earthquake event, as recognised in 1H16;
- Increased competition in the Business division's commercial lines market, where a continued focus on pricing and underwriting disciplines remained a priority; and
- The realisation of benefits from the Lumley integration, disciplined cost management and continued focus on expense savings.

Strong underlying profitability maintained

The New Zealand business' underlying margin has remained strong, as it balances customer affordability issues with high regulatory costs in a competitive market. The FY16 underlying margin of 16.9% (FY15: 15.9%) included a favourable quota share effect of approximately 250bps.

A lower 2H16 underlying margin of 15.5% (1H16: 18.4%) reflected the cumulative effect of competitive pricing pressure in the commercial market, as well as higher claim costs associated with the seasonally wetter months of May and June.

8. NEW ZEALAND

INSURANCE MARGIN IMPACTS	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Reserve releases	(2)	(134)	(143)	(6)	(136)	(149)
Natural perils	(11)	(48)	(14)	(25)	(59)	(39)
Natural peril allowance	46	46	28	28	92	56
Reserve releases	(0.2%)	(13.4%)	(18.8%)	(0.7%)	(6.8%)	(9.4%)
Natural perils	(1.1%)	(4.8%)	(1.8%)	(3.0%)	(2.9%)	(2.5%)
Natural peril allowance	4.6%	4.6%	3.7%	3.4%	4.6%	3.6%

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

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 ceased from 2H16.

MARKET REGULATION AND REFORM

EQC reform expected to become operative in 2017

The New Zealand Government continues to consider proposed changes to the Earthquake Commission Act 1993 which governs the operations of the EQC. The major areas of focus are the separation of site works and building cover and ensuring all claims are lodged with private insurers, with the latter expected to be resolved outside the regulatory process. The proposals meet many of the local insurance industry's recommendations, and include:

- The EQC exiting contents insurance and leaving 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 (plus GST) to NZ$200,000 (plus GST), with the possibility of ring-fencing some of this to cover site works; and
- Limiting land cover to situations where rebuilding is not practicable.

Timeframes for this reform have yet to be finalised. Officials are expected to take a single issues paper on site works and building cover to Ministers in the opening quarter of FY17, and then go to Cabinet with the full reform package. The industry is expecting to receive an exposure draft of this package before legislation is introduced to Parliament, most likely in early calendar 2017. If implemented, it is expected the proposed EQC reforms will cause minimal change to revenue but require considerable operational change.

The Minister of Internal Affairs has announced changes to New Zealand's fire services model. A unified organisation, Fire and Emergency New Zealand, is proposed to be funded by an expanded fire levy paid on insurance for contents, property and vehicles. Legislation outlining these changes was introduced to Parliament in June 2016 and if passed will come into force from July 2017. Regulations including a levy rate increase for 2017/18 are yet to be announced, while an extension of the levy to include insurance on material damage (rather than just fire damage) and third party motor vehicle insurance will come into force from July 2018. Specific details of how the levy will attach to these policies are yet to be announced, with this expected to determine the scale and complexity of the impact on the business.

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;
- A review of the Insurance Prudential Supervision Act;
- A review of the Commerce Act which the Minister is currently seeking a second round of feedback on;
- Continued pursuit of reforms to the Resource Management Act, to strengthen the consideration of natural hazards in land use decisions, including a National Policy Statement of Natural Hazards; and
- Pursuit of the development of an improved national strategy and framework for the management of large-scale natural hazards.

MARKET ENVIRONMENT AND OUTLOOK

The New Zealand economy remains solid with annual GDP growth of 2.8% for the year to March 2016 and growth expectations of over 3% for the coming year. Strong population growth, increasing tourist numbers and the continuation of an active construction sector, despite the levelling off of earthquake-related activity in the Canterbury region, are expected to drive growth in consumer and business consumption. Inflation remains at historically low levels, well below the Reserve Bank’s 1-3% inflation target.

Underlying profitability expected to remain strong

The New Zealand business’ strategy remains focused on maintaining its market-leading position by delivering affordable, customer-centric offerings while achieving strong underlying profitability by focusing on pricing and underwriting disciplines.

The market is expected to remain competitive across both the Business and Consumer divisions, with low rate increases across key personal lines products offset by continued pressure on commercial lines, contributing to relatively flat GWP growth prospects in FY17. Underlying profitability of the business is expected to remain strong.

9. ASIA

FINANCIAL PERFORMANCE

	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**164**	**189**	**197**	**189**	**353**	**386**
Gross earned premium	163	187	193	193	350	386
Reinsurance expense	(19)	(22)	(57)	(54)	(41)	(111)
Net earned premium	**144**	**165**	**136**	**139**	**309**	**275**
Net claims expense	(84)	(106)	(75)	(82)	(190)	(157)
Commission expense	(37)	(41)	(35)	(32)	(78)	(67)
Underwriting expense	(22)	(27)	(25)	(24)	(49)	(49)
Underwriting profit/(loss)	**1**	**(9)**	**1**	**1**	**(8)**	**2**
Investment income on technical reserves	7	6	2	3	13	5
Insurance profit/(loss)	**8**	**(3)**	**3**	**4**	**5**	**7**
Share of profit from associates	9	7	7	12	16	19
Total divisional result	**17**	**4**	**10**	**16**	**21**	**26**

FINANCIAL CONTRIBUTION BY COUNTRY

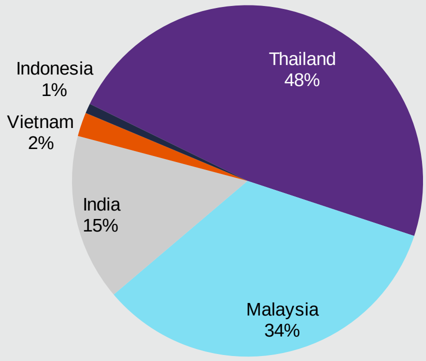
	Gross GWP		Proportional GWP		Earnings Contribution	
	FY15 A$m	FY16 A$m	FY15 A$m	FY16 A$m	FY15 A$m	FY16 A$m
Thailand	334	362	334	362	15	23
Malaysia	544	521	267	255	39	40
Established markets	**878**	**883**	**601**	**617**	**54**	**63**
India	323	447	84	116	(4)	(4)
China	449	-	90	-	1	-
Vietnam	18	17	18	17	2	(1)
Indonesia	1	7	1	7	-	(1)
Developing markets	**791**	**471**	**193**	**140**	**(1)**	**(6)**
Total Asian operations	**1,669**	**1,354**	**794**	**757**	**53**	**57**
Support and development costs	n/a	n/a	n/a	n/a	(32)	(31)
Total divisional result	**1,669**	**1,354**	**794**	**757**	**21**	**26**

9. ASIA

EXECUTIVE SUMMARY

- Asia remains an attractive long term growth opportunity for IAG
- IAG has a presence in five markets: Thailand, Malaysia, India, Vietnam and Indonesia
- ~82% of c.$800m investment in high-performing established businesses in Thailand and Malaysia
- Proportional GWP (ex-China) up 7.5% to $757m – solid growth in Thailand and continued strong growth in India
- Sound underlying performances from established businesses, small losses from developing businesses
- Higher overall divisional profit of $26m (FY15: $21m)
- Further operational progress expected in FY17, with deeper focus on established markets

Asia GWP Mix FY16 - Proportional Basis



ASIAN GROWTH OPPORTUNITY

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

Asia represents an important source of long term growth for IAG, with a presence established in five markets: Thailand, Malaysia, India, Vietnam and Indonesia. In 1H16, IAG determined not to pursue further investment in China, with a 16.9% interest in Bohai Property Insurance Company Ltd (Bohai) transferred to IAG's shareholders' funds investment portfolio.

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.

IAG's 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 a GWP pool of over $130bn is anticipated.

The future 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 in the key markets of Thailand and Malaysia;
- Ownership dial-up, where available (e.g. Malaysia);
- Entry into local partnerships (e.g. potentially Indonesia);
- Pursuit of adjacent business opportunities (e.g. takaful); and
- Improved returns on the back of progressively increased scale and maturity of constituent operations.

DIVISIONAL RESULT OVERVIEW

Sound progress towards long term goals

IAG's combined operation in Asia continued to make sound progress in FY16, with the fundamental underwriting performance of the established businesses in Thailand and Malaysia remaining strong. As at 30 June 2016, IAG's investment in Asia was $797m, of which $657m (82%) was in Thailand and Malaysia.

9. ASIA

At 30 June 2015 the equivalent figure was $893m, with the net decrease since then reflecting the combination of:

- The exclusion of Bohai in China, following its reclassification to shareholders' funds;
- Capital repatriation in the form of dividend payments from the established businesses in Thailand ($14m) and Malaysia ($23m);
- Foreign exchange movements; and
- Retained earnings in FY16.

Net investment of nearly $800m in Asia

The division contributed a total profit of $26m in FY16, including shares of associates. This compares to a $21m profit in FY15, and comprises:

- Sound underlying performances by the established businesses in Thailand and Malaysia, where combined profitability increased by over 16% compared to FY15; and
- Higher, but still relatively modest, losses from the developing businesses, comprising:
  - A similar-sized loss in India, compared to FY15;
  - The absence of earnings from the loan protection run-off portfolio in Vietnam, which moved to a small overall loss; and
  - The first time inclusion of a full year's result from Indonesia, which posted a small loss.

The overall outcome also included an unfavourable movement in mark-to-market valuations of investments of approximately $2m, as well as slightly lower regional support and development costs.

In FY16, Asia represented 6.4% of the Group's GWP on a proportional basis, compared to 6.0% in FY15 (ex-Bohai). Proportional GWP in Asia amounted to $757m in FY16, an increase of 7.5% over FY15 (ex-Bohai). This reflects:

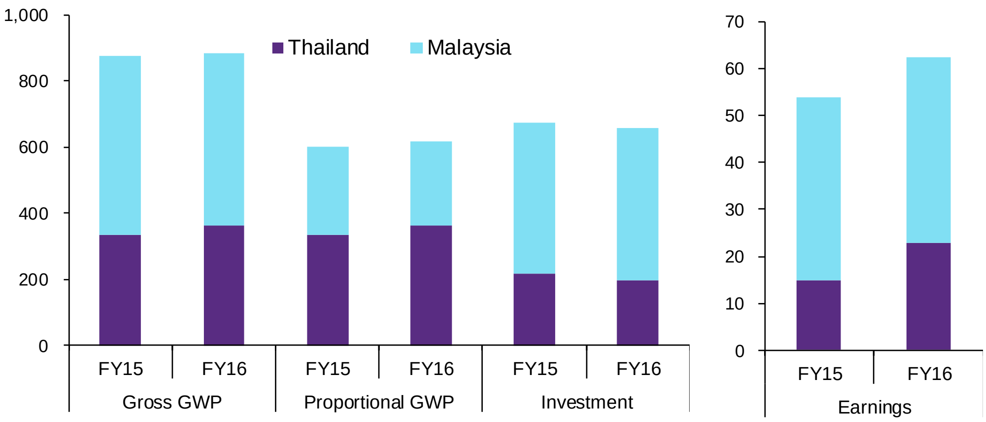
Proportional GWP growth of 7.5% – now 6.4% of Group GWP on that basis

- Sound growth in Thailand, from continued focus on developing the used car segment, amplified by a favourable foreign exchange translation effect;
- Flat local currency GWP in Malaysia, including an encouraging resumption of growth in 2H16, reduced to a 4.2% contraction on translation;
- Continuing strong growth in India;
- Steady like-for-like growth in Vietnam, on improving economic conditions; and
- The first-time inclusion of GWP from the small business acquired in Indonesia towards the end of FY15.

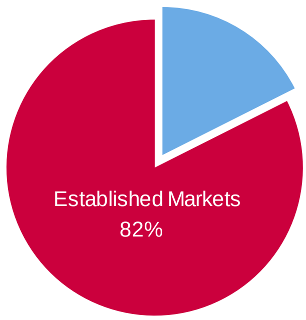
IAG has interests in Asian businesses whose combined annualised GWP pool now exceeds $1.4bn.

9. ASIA

ESTABLISHED MARKETS (A$M)



% ASIAN INVESTMENT



THAILAND

Market Presence

IAG holds a 98.6% beneficial interest in Safety Insurance (Safety), a predominantly motor insurer (c.79% 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.

SAFETY FINANCIAL PERFORMANCE*	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**155**	**179**	**184**	**178**	**334**	**362**
Gross earned premium	150	173	178	180	323	358
Reinsurance expense	(18)	(20)	(54)	(51)	(38)	(105)
Net earned premium	**132**	**153**	**124**	**129**	**285**	**253**
Net claims expense	(82)	(103)	(72)	(79)	(185)	(151)
Commission expense	(31)	(37)	(30)	(29)	(68)	(59)
Underwriting expense	(15)	(14)	(13)	(10)	(29)	(23)
Underwriting profit/(loss)	**4**	(1)	**9**	**11**	**3**	**20**
Investment income on technical reserves	7	5	1	2	12	3
Insurance profit	**11**	**4**	**10**	**13**	**15**	**23**
Insurance Ratios	**1H15**	**2H15**	**1H16**	**2H16**	**FY15**	**FY16**
Loss ratio	62.1%	67.3%	58.1%	61.1%	64.9%	59.6%
Expense ratio	34.9%	33.4%	34.7%	30.2%	34.1%	32.4%
Commission ratio	23.5%	24.2%	24.2%	22.3%	23.9%	23.2%
Administration ratio	11.4%	9.2%	10.5%	7.9%	10.2%	9.2%
Combined ratio	97.0%	100.7%	92.8%	91.3%	99.0%	92.0%
Insurance margin	8.3%	2.6%	8.1%	10.4%	5.3%	9.2%

**Excludes allocated regional support and development costs.*

Operating Performance

The Thai business reported GWP growth of over 8% in FY16, comprising local currency growth of 3% and a 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, amid declining new car sales;

Sound local currency GWP growth in Thailand

- Strengthening renewal retention with greater emphasis on customer management;
- The introduction of a new carbon emission excise tax with effect from 2H16, which adversely affected new car volumes; and
- A softening of rates in the commercial motor and property segments.

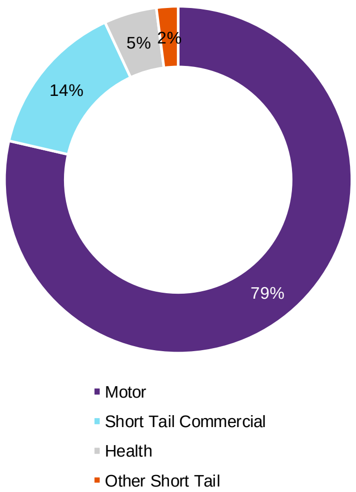
The Thai business reported an increased insurance margin of 9.2% (FY15: 5.3%), reflecting the combination of:

- Strong discipline in portfolio management and underwriting controls, in the face of significant competitive pressure on motor premium rates;
- A relatively benign claims environment, including lower incidence of large commercial claims;
- Higher prior period reinsurance-related recoveries and reserve releases; and
- Weaker investment income on technical reserves, reflecting the low interest rate environment.

Investment income on technical reserves in FY15 was swollen by a favourable foreign exchange impact from the hedge tied to reinsurance recoveries, with a corresponding negative in the net claims expense and no net impact on insurance margin. Equivalent figures in FY16 were negligible.

The Thai business reported a higher insurance profit of $23m, compared to $15m in FY15. Following the allocation of regional support and development costs, Thailand's profit contribution was $14m (FY15: $5m).

SAFETY – FY16 GWP BY CLASS



Market Environment, Regulation and Reform

The long term outlook for Thailand remains positive. The Thai economy expanded by 3.2% in the first quarter of 2016, boosted by accelerated government spending and increased tourism. The Bank of Thailand anticipates the economy will grow by 3.1% in 2016, on the back of a gradual recovery in exports and further stimulus measures.

The Thai general insurance industry grew by nearly 2% in calendar 2015. Growth in 2016 is expected to be modest owing to continuing weak car sales and mortgage demand.

Modest industry growth anticipated in 2016

MALAYSIA

Market Presence

IAG owns a 49% interest in AmGeneral Holdings Berhad (AmGeneral), the general insurance arm of AmBank Group, Malaysia's sixth 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 from AmGeneral, as GWP growth resumes in 2H16

Operating Performance

AmGeneral's FY16 local currency GWP was flat, compared to FY15, with a notable improvement in 2H16 seeing a resumption of growth and regained leadership of the motor segment. Local currency GWP growth in 2H16 was 4.8%, compared to 2H15. Reported GWP contracted by 4.2% to $521m (IAG's share being approximately $255m), compared to FY15 ($544m), owing to an unfavourable foreign exchange translation effect.

9. ASIA

AMGENERAL FINANCIAL PERFORMANCE*	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**272**	**272**	**252**	**269**	**544**	**521**
Gross earned premium	279	276	257	258	555	515
Reinsurance expense	(25)	(24)	(19)	(23)	(49)	(42)
Net earned premium	**254**	**252**	**238**	**235**	**506**	**473**
Net claims expense	(156)	(159)	(153)	(134)	(315)	(287)
Commission expense	(29)	(25)	(27)	(27)	(54)	(54)
Underwriting expense	(43)	(45)	(39)	(59)	(88)	(98)
Underwriting profit	**26**	**23**	**19**	**15**	**49**	**34**
Investment income on technical reserves	22	25	19	23	47	42
Insurance profit	**48**	**48**	**38**	**38**	**96**	**76**
Net profit after tax	**39**	**41**	**34**	**47**	**80**	**81**
Net profit after tax - IAG's share (49%)	**19**	**20**	**17**	**23**	**39**	**40**

Insurance Ratios	1H15	2H15	1H16	2H16	FY15	FY16
Loss ratio	61.4%	63.1%	64.3%	57.0%	62.3%	60.7%
Expense ratio	28.3%	27.8%	27.7%	36.6%	28.1%	32.1%
Commission ratio	11.4%	9.9%	11.3%	11.5%	10.7%	11.4%
Administration ratio	16.9%	17.9%	16.4%	25.1%	17.4%	20.7%
Combined ratio	89.7%	90.9%	92.0%	93.6%	90.4%	92.8%
Insurance margin	18.9%	19.0%	16.0%	16.2%	19.0%	16.1%

**Excludes allocated regional support and development costs.*

The improvement in AmGeneral's GWP performance reflected positive outcomes from its distribution and customer service proposition strategy, aimed at restoring its competitive market positioning. This included:

- A strong focus on renewals, including agent support and process improvement;
- The launch of new products and enhancements to support further cross-sell;
- A focus on aligning process effectiveness with customer proposition, to improve ease of doing business with AmGeneral;
- A digital focus to support all distributors and the customer value proposition;
- A revised distributor support model, especially around partnership management; and
- A renewed focus on the commercial and non-motor segments of the market, as well as the pursuit of franchise partnerships to increase penetration in the new car market.

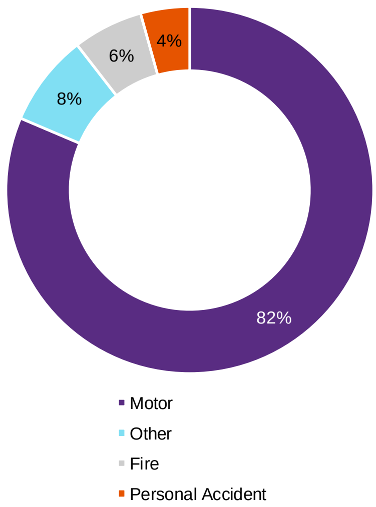
The market remains highly competitive, especially in the lead-up to detariffication, and is characterised by intense activity in the motor segment amid stagnant car sales (flat growth in calendar 2015).

AmGeneral's insurance margin of 16.1% was relatively consistent across FY16, but was lower than FY15 (19.0%). This reflects the combination of:

- A lower loss ratio of 60.7% (FY15: 62.3%), owing to more favourable prior period reserve releases from the motor bodily injury portfolio;
- The adverse impact of non-claimable input tax expenses associated with GST implementation; and
- Higher business acquisition costs underpinned by intense market competition.

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

AMGENERAL – FY16 GWP BY CLASS



9. ASIA

Market Environment, Regulation and Reform

Moderate GWP growth expected, as detariffication commences

The Malaysian economy expanded by 4.2% in the first quarter of 2016, supported by strong domestic demand and despite comparison against a period of heightened consumption immediately ahead of the Goods and Services Tax implementation in April 2015. The economy has proven resilient in a protracted period of low energy prices which have adversely impacted export revenues. The government anticipates sustained GDP growth of the order of 4-4.5%, driven by the implementation of infrastructure development projects and capital spending in the manufacturing and services sectors.

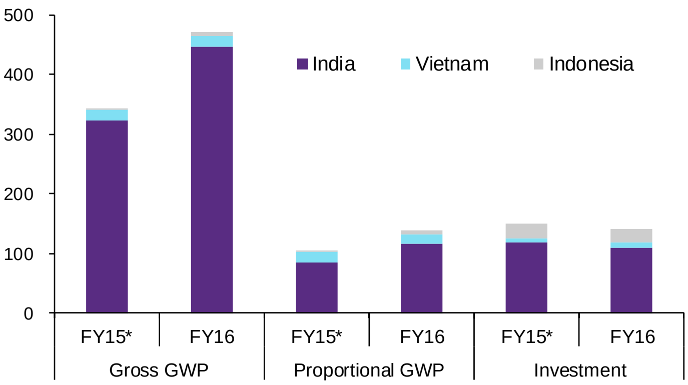
The Malaysian general insurance industry is expected to grow moderately at 2-3% in calendar 2016, as it continues to face the headwinds of subdued consumer sentiment and motor vehicle sales.

The operating landscape is expected to evolve with regulatory-driven liberalisation over the next few years, beginning with the phased implementation of detariffication of motor and fire insurance. AmGeneral is well-prepared for the tariff reform.

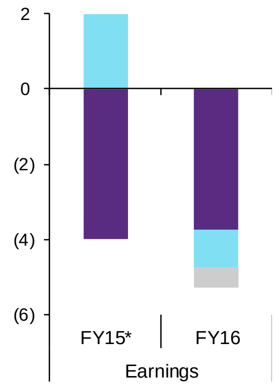
The recently enacted Financial Services Act and Islamic Financial Services Act include the prohibition of composite licences. Under the new regulation, both conventional insurance companies and takaful operators will need to split their general and life/family companies under separate licences. New regulatory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

9. ASIA

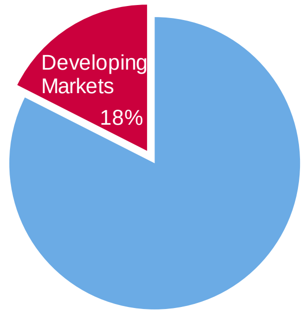
DEVELOPING MARKETS (A$M)



*FY15 restated to exclude China (Bohai).



% ASIAN INVESTMENT



INDIA

Market Presence

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India (SBI), India's largest bank. SBI General commenced underwriting in April 2010 and is building a portfolio with a presence in the retail, SME and corporate markets across India, with access to SBI's extensive bancassurance channel.

Following the amendment of the insurance law in March 2015, to increase the foreign direct investment limit, IAG is able to exercise its option to increase its ownership of SBI General to 49%. IAG continues to examine the potential exercise of this option.

Strong GWP growth from SBI General, while underwriting profitability remains challenging

SBI GENERAL FINANCIAL PERFORMANCE*	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Gross written premium	**134**	**188**	**197**	**250**	**322**	**447**
Gross earned premium	112	144	173	194	256	367
Reinsurance expense	(30)	(41)	(46)	(55)	(71)	(101)
Net earned premium	**82**	**103**	**127**	**139**	**185**	**266**
Net claims expense	(71)	(86)	(104)	(114)	(157)	(218)
Commission expense	(5)	(9)	(7)	(14)	(14)	(21)
Underwriting expense	(33)	(46)	(52)	(55)	(79)	(107)
Underwriting (loss)	**(27)**	**(38)**	**(36)**	**(44)**	**(65)**	**(80)**
Investment income on technical reserves	20	16	22	29	36	51
Insurance (loss)	**(7)**	**(22)**	**(14)**	**(15)**	**(29)**	**(29)**
Net profit/(loss) after tax	**3**	**(17)**	**(7)**	**(7)**	**(14)**	**(14)**
Net profit/(loss) after tax - IAG's share (26%)	**1**	**(5)**	**(2)**	**(2)**	**(4)**	**(4)**

Insurance Ratios	1H15	2H15	1H16	2H16	FY15	FY16
Loss ratio	86.6%	83.5%	81.9%	82.0%	84.9%	82.0%
Expense ratio	46.3%	53.4%	46.4%	49.7%	50.3%	48.1%
Commission ratio	6.1%	8.7%	5.5%	10.1%	7.6%	7.9%
Administration ratio	40.2%	44.7%	40.9%	39.6%	42.7%	40.2%
Combined ratio	132.9%	136.9%	128.3%	131.7%	135.2%	130.1%
Insurance margin	(8.5%)	(21.4%)	(11.0%)	(10.8%)	(15.7%)	(10.9%)

*Excludes allocated regional support and development costs.

9. ASIA

Operating Performance

SBI General has continued to grow strongly, generating FY16 GWP equivalent to $447m (IAG's 26% share being approximately $116m), an increase of over 38% over FY15. Local currency GWP growth was nearly 30%.

GWP growth in FY16 was led by increased health and personal accident insurance volumes through the bancassurance channel, growth of the motor business distributed through dealers and increased crop insurance volumes.

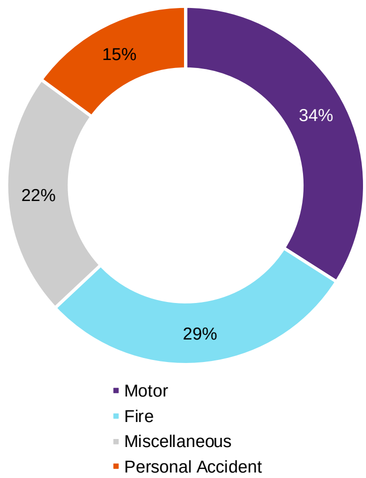
SBI General has climbed to thirteenth position in the Indian general insurance market with an overall market share in excess of 2%. It has established itself as the second largest personal accident insurance provider with market share of 12% in that segment.

Despite the strong top line growth, SBI General's financial performance is behind expectations. SBI General reported a loss in FY16, of which IAG's share was approximately $4m, in line with FY15. This outcome comprised the net effect of:

- A lower loss ratio arising from improved experience in the personal accident and health segments, partially offset by deterioration in motor business written through dealers;
- Higher expenses that increased almost in line with premium growth owing to increased acquisition costs; and
- Higher investment income on technical reserves in line with business growth.

At the end of FY16, SBI General had 73 products in the market, 101 dedicated branches across India and over 2,500 employees.

SBI GENERAL – FY16 GWP BY CLASS



Market Environment, Regulation and Reform

The Indian economy grew by 7.6% in the fiscal year ending 31 March 2016, led by strong domestic demand and manufacturing growth. The economy is expected to be supported by healthy domestic dynamics and further market reforms.

The medium to long term growth prospects for the general insurance market in India remain strong. The industry grew by 14% in the year to 31 March 2016, assisted by improved domestic demand and lower interest rates. The industry is targeting a growth rate of 18% in fiscal year 2017, supported by increased penetration from a low starting point, rising consumer income, government expenditure on infrastructure projects, an improving real estate market and increasing awareness of health insurance.

The regulatory framework continues to evolve rapidly, led by government focus on market reforms, a broader social agenda and an emphasis on majority Indian ownership and control. Key regulatory changes and initiatives introduced include:

- Solvency margins based on each line of business where the solvency ratio will be dependent on premiums collected and net incurred claims;
- Motor third-party liability insurance premiums for small and medium-sized cars increasing by 40% with effect from 1 April 2016, to keep pace with increased claim costs and higher court awards;
- Banks being allowed to tie up with up to three general insurers in distributing insurance products, to increase insurance penetration in the retail segment; and
- Regulations relating to the appointment of directors and key management, composition of Boards and Committees and reservation of rights to the Board, all designed to ensure the ownership and control of Indian insurance companies remain in the hands of Indian residents.

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

9. ASIA

VIETNAM

Market Presence

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

Operating Performance

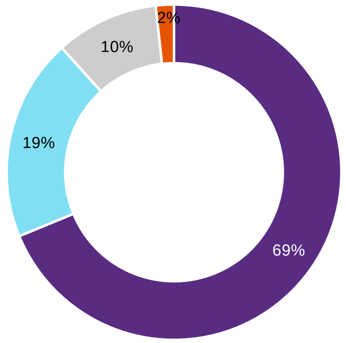
AAA Assurance recorded a loss of $1m in FY16, compared to a profit of $2m in FY15. The weaker result reflected:

- An increase in the loss ratio to 25.8% (FY15: 19.1%), 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.

A targeted development plan is being pursued to deliver an efficient distribution base, while pursuing selective and profitable growth segments of the market. Additional work on longer term strategic positioning of the business is underway.

Small loss from Vietnam

AAA ASSURANCE – FY16 GWP BY CLASS



Market Environment, Regulation and Reform

The Vietnamese economy grew by 5.5% in the first quarter of 2016, with the full calendar year anticipated to deliver growth well in excess of 6%, supported by strong exports and buoyant private consumption. In addition, the government has been taking measures to improve the business environment by gradually reforming state-owned enterprises.

The long term outlook for Vietnam's non-life insurance sector remains positive, driven by a low penetration rate and a growing middle class. Motor represents approximately 31% of industry GWP, which remains significantly lower than most other South East Asian countries. The market continues to be dominated by the underwriting of large-scale industrial and commercial risks in the near term, while low incomes and constrained purchasing power of households hinder growth in the personal lines segment.

Sound economic recovery in Vietnam, with positive long term outlook

INDONESIA

Market Presence

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

IAG is currently progressing an agenda in Indonesia that includes the development of a new digital business model, as well as the pursuit of potential partnership and distribution opportunities.

Development of digital business model in Indonesia

Operating Performance

IAG commenced consolidation of Parolamas' results from May 2015. In FY16, Parolamas reported GWP of $7m and a small loss of $1m.

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 strengthening the operational and technical capability of Parolamas.

Key operational activities undertaken in FY16 include:

9. ASIA

- The launch of new policy and HR systems;
- Improving underwriting and claims controls;
- Devising a digital distribution roadmap;
- Simplifying and strengthening banking processes;
- Implementing sound investment practices; and
- Establishing a robust risk and governance framework.

Market Environment, Regulation and Reform

Strong long term industry growth outlook in Indonesia

The Indonesian economy grew by 4.8% in calendar 2015, supported by accelerated government spending, while partially offset by ongoing weakness in external demand and lower prices for key commodity exports. Independent forecasts suggest GDP growth of approximately 5% in 2016.

The Indonesian General Insurance Association expects the industry to expand by 15-20% in 2016 on the back of government infrastructure developments. More moderate growth in property insurance is expected, while lower automotive sales are expected to weigh on motor insurance growth prospects.

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).

9. ASIA

REGIONAL SUPPORT AND DEVELOPMENT COSTS

Transition to new support model expected to see decline in future costs

Regional support and development expenditure is deployed to support 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 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$m	2H16 A$m	FY15 A$m	FY16 A$m
Consolidated operations (Thailand, Vietnam & Indonesia[1])	4	8	7	7	12	14
Associates (Malaysia, India & China[2])	10	10	8	9	20	17
Total regional support and development costs	**14**	**18**	**15**	**16**	**32**	**31**

[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 FY16, of $31m, were slightly lower than FY15. Future periods are expected to see a decline in support and development costs, as the division transitions to a new support model that will achieve greater cost efficiency and a more sustainable supply of specialist resourcing.

OUTLOOK

Stronger underlying performance expected in FY17, with deeper focus on established markets

A stronger underlying performance is anticipated from Asia in FY17, as well as a higher rate of GWP growth on a proportional basis. The business will deepen its focus on the profitable established markets of Malaysia and Thailand.

Thailand is expected to produce modestly higher GWP, based on channel diversification and further penetration of the used car market through the agency and broker channels. The business' sound underlying profitability is expected to improve through enhanced risk selection.

In Malaysia, AmGeneral will maintain its focus on restoring GWP growth via concentration on renewals and account management through better service delivery and customer experience, as well as pursuing growth of non-motor and personal lines with enhanced products and cross-sell. The business is well-placed to handle the transition to a fully detariffed motor and fire market from mid-2017 onwards.

Growth from SBI General in India is expected to remain strong, derived from the higher penetration of the motor segment through selective distributors, along with the maximisation of opportunities in profitable segments of the bank channel. The business is pursuing improved profitability in FY17 through increased efficiency in claims and expense management.

Work is underway in Vietnam to more clearly define AAA's strategic position. This follows the operational improvements realised through capability transfer in claims, underwriting, corporate governance and risk management, as well as the enhancement of efficiencies in the branch operating model.

The emphasis in Indonesia will be on the further development of a new digital business model, as well as pursuit of potential partnership and distribution opportunities, while continuing to strengthen technical capability and operational efficiency.

10. IAG LABS

IAG LABS

IAG Labs was created at the end of July 2015, and was reconfigured as part of the new organisational structure which took effect from 9 December 2015, to comprise two elements:

- Customer Labs; and
- Digital Labs.

CUSTOMER LABS

Customer Labs is responsible for IAG's customer experience strategy and for driving product, pricing and marketing innovation through data and insights, brand architecture across the Group, human centred design and new business incubation and venturing. Customer Labs focuses on deeply understanding customers and their needs to help create new and improved experiences for them.

FY16 ACTIVITIES

In FY16, Customer Labs focused on harnessing the power of IAG's data. This involved:

- Continuing to build and refine one central source of truth for IAG's information asset by bringing all data warehouses together. This database operates in real time allowing IAG to immediately understand the actions its customers are taking across all channels;
- Personalising the customer experience through deep analytics to better understand customer behaviour when buying insurance. This includes personalised offers, targeted marketing approaches and pricing options, underpinned by the continuous capture of time-stamped customer actions to enable improvement of the customer experience or product offering at the next interaction;
- Building a culture of experimentation and continuous in-market testing. This is facilitated through in-market trials, where offers can be automatically adjusted depending on customer take-up, as well as improved through cognitive computing techniques including machine learning;
- Developing and deploying a fraud analytics model that identifies fraudulent behaviour and helps IAG improve its response and claims effectiveness;
- Identifying opportunities to work more collaboratively with other corporations in the areas of customer experience and the use of data and information; and
- Developing and testing the software capabilities of wholly-owned subsidiary Ambiata (acquired in FY15) as a service product offering for the broader market.

In FY16, Customer Labs focused on harnessing the power of IAG's data

FY17 PRIORITIES

Key priorities and initiatives being undertaken by Customer Labs during FY17 include:

- Defining a world-leading customer experience and building customer journeys and experience strategies to reflect that;
- Developing IAG's customer segments through deep data-driven insights and aligning them to brand and product propositions;

Range of initiatives in FY17, serving to embed a customer-led, data-driven culture

- Taking Ambiata's product offering to market. Ambiata has developed an analytical tool providing the intelligent analytical layer that connects an organisation's data asset to its customer. It places measurement and model-build in the hands of a corporation's data scientists and cognitive intelligence at the centre of an organisation's decision-making. Already deployed in a number of top 20 ASX organisations, this product is being launched in Asia and North America over the next 12 months;
- Further building of a customer-led, data-driven culture across IAG, by aligning customer measurement, introducing customer training and education programmes for all staff, and through making data open and accessible throughout the organisation;
- Leveraging a marketing automation system that allows IAG to optimise its marketing spend and interact with its customers directly; and
- Continuing to build on IAG's world-class pricing capability by further improving pricing approaches and models and automating them where possible, leveraging advanced analytics techniques.

DIGITAL LABS

Digital Labs provides digital and design innovation across the Group, while identifying and harnessing disruptive technology which it uses to build digital apps and eco-systems. It is also responsible for the simplification of existing core platforms, reducing complexity and cost across IAG.

FY16 ACTIVITIES

In FY16, Digital Labs focused on embedding rapid innovation and lean practices, while exploring disruptive technologies and delivering new eco-systems, preparing the way for the simplification and stabilisation of core technology platforms and the delivery of new customer-led, data-driven products. This involved:

- The introduction of a truly digital way of working across IAG, embracing Lean Manufacturing principles, Design Thinking Concepts and Agile and Continuous Delivery methods. This is resulting in significant efficiency gains and shortened timeframes for realising value from initiative delivery;
- The establishment and alignment of dedicated digital delivery teams for each division across Australia, New Zealand and Asia. These are now producing enhancements to digital capability at an enhanced velocity;
- Putting in place the capability to generate and evaluate ideas from across the organisation, resulting in pilot digital services to unlock further value from the supply chain, including increased touchpoints with existing customers and the introduction of new customers; and
- Completion of planning for the simplification of core policy and claims platforms.

In FY16, Digital Labs focused on embedding rapid innovation and lean practices

FY17 PRIORITIES

Key priorities and initiatives planned to be undertaken by Digital Labs during FY17 include:

- Commencement of the simplification of core policy and claims products, processes and platforms, to drive efficiency across Australia and New Zealand;
- Acceleration of the creation of digital capability aligned to the goals of IAG's divisions across all geographies;

Simplification of core platforms to commence in FY17

10. IAG LABS

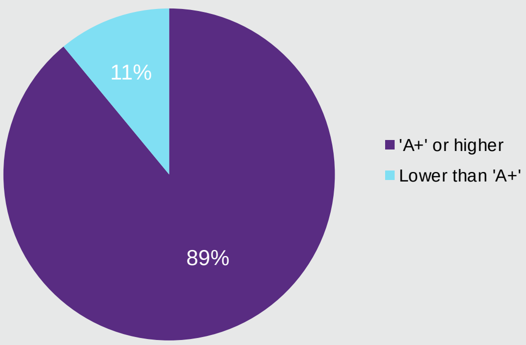
- The launch of new digital services that leverage existing capability in an innovative way, while harnessing emerging technologies including the 'Internet of Things', blockchain and drones;
- Developing IAG's marketing automation, social and loyalty platform;
- Introducing API (application programme interface) and mobile-first architecture, combined with the implementation of social coding to co-innovate and reuse technology within IAG;
- Leveraging research institutions and partners to co-innovate and develop new revenue-generating products and services; and
- Enhancing contact centre, work-from-home, branch and kiosk technology across IAG's operations.

11. 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 $190m at 30 June 2016, post-quota share
- Additional perils cover of $96m in excess of $680m, purchased for FY17
- Innovative solution to major run-off portfolios (earthquake and asbestos) announced in February 2016

Counter-Party Risk - Catastrophe Programme



REINSURANCE STRATEGY

IAG's reinsurance programme is an important part of its approach to capital management. IAG has a philosophy of limiting its main catastrophe retention to a maximum of 4% of NEP. 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 and Thailand treaty business and 95% for Vietnam, as well as a substantial amount from IAG's joint venture interests in Asia. Reinsurance in respect of IAG's small business 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

The continued absence of major global catastrophe events has resulted in ongoing favourable market conditions across all classes of business. While the reinsurance sector has continued to perform well, it has seen a reduction in returns due to falling rates and some smaller catastrophe events. This has led to a contraction in the quantum of recent rate reductions, which is expected to continue over the coming year.

Reinsurance rating environment is expected to stabilise

QUOTA SHARE AGREEMENT

As part of the strategic relationship with Berkshire Hathaway, IAG 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 has materially reduced IAG's catastrophe cover needs

11. REINSURANCE

The application of the quota share means that all of IAG's net retentions reduced by 20% with effect from 1 July 2015.

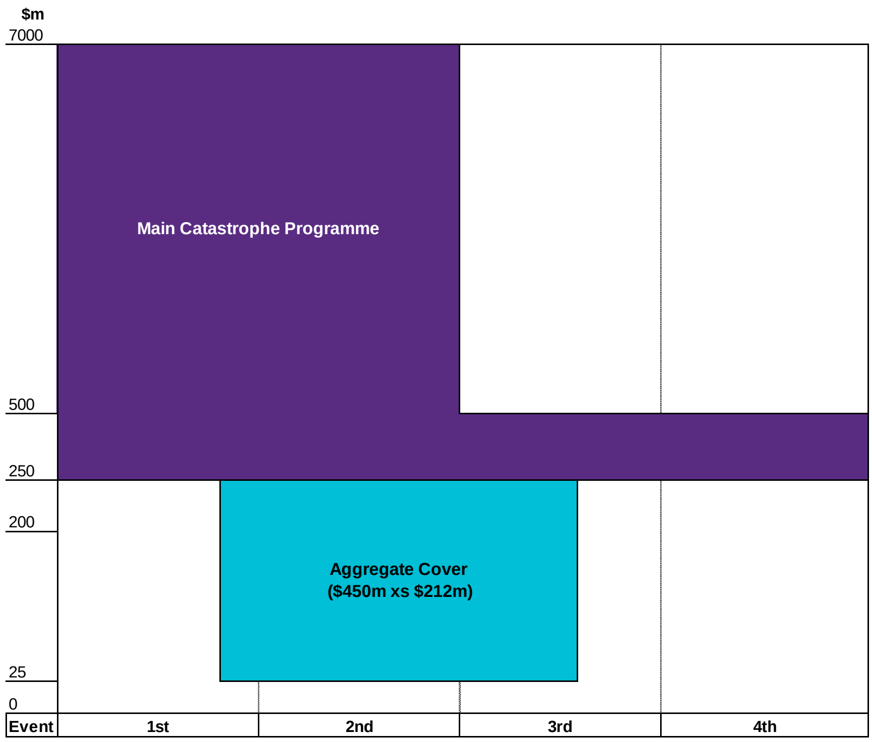
CATASTROPHE COVER

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, where renewal rights have passed to Berkshire Hathaway.

GROSS CATASTROPHE REINSURANCE – AS AT 30 JUNE 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
- 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

11. REINSURANCE

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 89% (2015: over 89%) placed with entities rated A+ or better.

As at 30 June 2016, the deductible in respect of the aggregate cover had been eroded by approximately $130m (post-quota share), leaving approximately $170m of aggregate deductible to be eroded before the cover becomes active.

The combination of all catastrophe covers in place at 1 July 2016 results in post-quota share first event retentions of $190m for Australia, NZ$190m for New Zealand, $20m for Thailand and Malaysia, and less than $1m for Vietnam and Indonesia.

MER of $190m, post-quota share

FY17 NATURAL PERILS COVER

IAG's natural perils allowance for FY17 has been set at $680m, compared to $600m in FY16, a greater than 13% increase. The lower allowance in FY16 accommodated the status of IAG's aggregate catastrophe cover at 1 July 2015. At that date, the calendar 2015 aggregate deductible had been fully eroded, resulting in subsequent protection of approximately $120m during 1H16. Excluding this consideration, IAG's FY17 natural perils allowance has increased by approximately 3% to reflect modest anticipated exposure growth and business mix changes.

IAG has also renewed and extended the reinsurance cover for retained natural perils which runs in line with the financial year. This provides $96m of cover in excess of $680m (post-quota share) for the 12 months to 30 June 2017. This cover extends directly from the FY17 natural perils allowance.

FY17-specific perils cover providing $96m of protection

RUN-OFF PORTFOLIO PROTECTION

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

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

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

The transaction has resulted in a substantial release of reserves from the asbestos book, and an overall pre-tax loss of $5m which was recognised in the net corporate expense line in 2H16.

Innovative combined solution to earthquake and asbestos run-off portfolios completed in 2H16

CTP QUOTA SHARE

With effect from 1 July 2013, IAG entered into a quota share agreement with Munich Re in respect of 30% of its combined CTP book for a five-year period. This agreement was designed, primarily, to improve IAG's capital efficiency, given the disproportionate regulatory capital required to support CTP business.

IAG is currently in discussion with Munich Re to extend the term of this agreement. The CTP quota share runs in conjunction with the whole-of-account arrangement with Berkshire Hathaway, meaning 50% of IAG's CTP book is subject to quota share.

11. REINSURANCE

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 favourably renewed at 30 June 2016 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 30 June 2016 are:

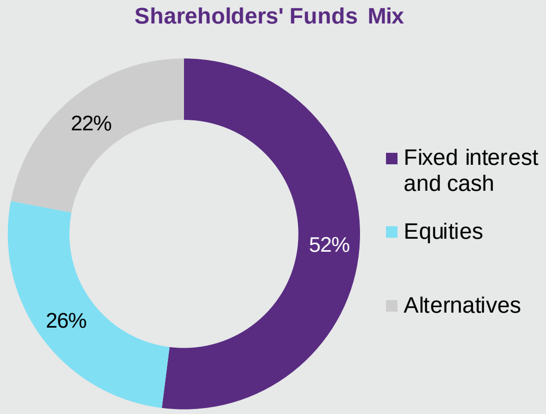
- 89% of limits placed with 'A+' or higher rated entities for the calendar 2016 property catastrophe programme; and
- 100% of limits placed with 'A+' or higher rated entities for the casualty programme.

Strong counter-party risk profile maintained

12. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $12.9bn as at 30 June 2016
- Overall investment allocation remains conservatively positioned
- Technical reserves of $8.7bn invested in fixed interest and cash
- Shareholders' funds of $4.2bn – growth asset weighting of 48%
- Strong investment return on technical reserves
- Lower shareholders' funds return influenced by weak equity market performance
- Strong credit quality maintained: 77% 'AA' or higher



INVESTMENT PHILOSOPHY

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.

Technical reserves invested to align with liability interest rate risk

INVESTMENT STRATEGIES

IAG's overall investment allocation remains conservatively positioned, with 84% of total investments in fixed interest and cash as at 30 June 2016. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 52%.

IAG's allocation to growth assets was 48% of shareholders' funds at 30 June 2016, compared to 47% at 31 December 2015 and 41% at 30 June 2015. Within the growth asset allocation, alternative investments accounted for 22% of shareholders' funds, unchanged from 31 December 2015 (FY15: 19%).

Distinct investment strategies for technical reserves and shareholders' funds

GROUP INVESTMENT ASSETS

The Group's investments totalled $12.9bn as at 30 June 2016, excluding investments held in joint ventures and associates, with 67% represented by the technical reserves portfolio.

The decrease in total investments since 31 December 2015 ($14bn) reflects the combined effect of:

- Further reduction in technical reserves, mirroring the related lowering of insurance liabilities, from the implementation of the asbestos reinsurance arrangement and the progressive effect of the 20% quota share;
- Inflows associated with the sound operating performance of the Group during the period; and
- Significant dividend payments in March 2016 ($559m).

Total investments reduced to $12.9bn, reflecting quota share effect

12. INVESTMENTS

GROUP INVESTMENT ASSETS	1H15 A$bn	FY15 A$bn	1H16 A$bn	FY16 A$bn
Technical reserves	10.5	11.0	9.7	8.7
Shareholders' funds	4.7	4.5	4.3	4.2
Total investment assets	**15.2**	**15.5**	**14.0**	**12.9**

ASSET ALLOCATION

Since 31 December 2015, the main change to asset allocation has been a reweighting of equity positions within shareholders' funds, from domestic equities to international equities, to provide greater diversification across the portfolio.

Over 84% of investments in fixed interest and cash

GROUP ASSET ALLOCATION

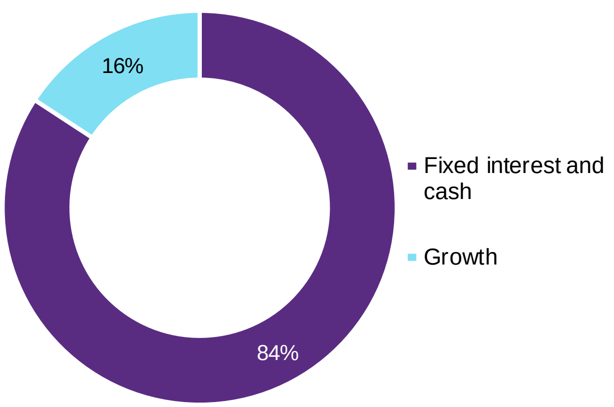
SHAREHOLDERS' FUNDS	1H15 %	FY15 %	1H16 %	FY16 %
Australian equities	12.1	14.1	16.6	8.5
International equities	6.3	7.4	8.8	17.1
Alternatives	17.8	19.4	22.1	22.2
Fixed interest and cash	63.8	59.1	52.5	52.2
Total	**100.0**	**100.0**	**100.0**	**100.0**
TECHNICAL RESERVES	%	%	%	%
Fixed interest and cash	100.0	100.0	100.0	100.0
Total	**100.0**	**100.0**	**100.0**	**100.0**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	%	%	%	%
Australian equities	3.7	4.1	5.1	2.8
International equities	2.0	2.1	2.7	5.7
Alternatives	5.5	5.6	6.7	7.3
Fixed interest and cash	88.8	88.2	85.5	84.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

CREDIT QUALITY OF ASSETS

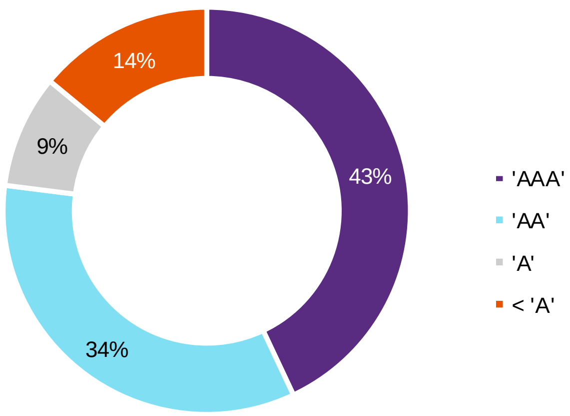
The credit quality of the Group's investment book remains strong, with approximately 77% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality maintained

GROUP ASSET ALLOCATION – 30 JUNE 2016



CREDIT QUALITY – 30 JUNE 2016



12. INVESTMENTS

SENSITIVITY ANALYSIS

As at 30 June 2016, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below and includes indirect sensitivities relating to alternative assets.

INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 30 JUNE 2016	Change in Assumption +1% A$m	-1% A$m
Equity market values:		
Australian equities	4	(4)
International equities	7	(7)
Total equity market sensitivity	**11**	**(11)**
Interest rates:		
Assets backing technical provisions	(196)	212
Assets backing shareholders' funds	(32)	33
Total interest rate sensitivity	**(228)**	**245**

INVESTMENT PERFORMANCE

A strong investment return was achieved on the technical reserves portfolio in FY16, with related investment income of $463m including:

- An unrealised capital gain of $151m at year end (FY15: $167m gain), primarily associated with a downward shift in the yield curve. The 3-year government bond yield fell to 1.55% at 30 June 2016, from 2.02% a year earlier;
- A negative impact of $37m from the widening of credit spreads, compared to a positive effect of $33m from the narrowing of spreads in FY15; and
- An adverse foreign exchange impact of $23m, 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 $24m, was recorded in FY15.

Strong return on technical reserves

Excluding timing effects connected to implementation of the Berkshire Hathaway quota share and the inception of the asbestos reinsurance arrangement, the average yield was broadly consistent with that recorded in FY15.

The portfolio continues to be aligned with the average weighted duration of the Group's claims liability. At 30 June 2016, this had reduced to approximately two to three years (FY15: three to four years), following the transfer of assets associated with the asbestos portfolio, which was subject to a reinsurance arrangement in 2H16.

Investment returns on shareholders' funds were restricted by the relatively flat performance of equity markets, both domestic and offshore, in FY16. The broader Australian index (S&P ASX200 Accumulation) delivered a positive return of 0.6% over the year ended 30 June 2016.

Lower shareholders' funds return owing to relatively flat equity markets

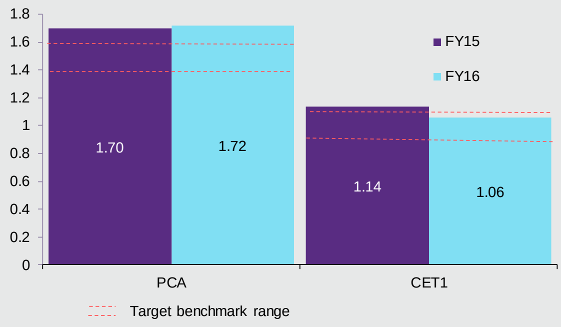
INVESTMENT INCOME	1H15 A$m	2H15 A$m	1H16 A$m	2H16 A$m	FY15 A$m	FY16 A$m
Technical reserves	427	135	174	289	562	463
Shareholders' funds	137	86	38	59	223	97
Total investment income	**564**	**221**	**212**	**348**	**785**	**560**

13. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position at 30 June 2016
  - PCA multiple of 1.72 vs. benchmark of 1.4-1.6
  - CET1 multiple of 1.06 vs. benchmark of 0.9-1.1
- $300m off-market buy-back announced, with expected completion in October 2016
- Increase in full year dividend policy payout range, to 60-80% of cash earnings
- Capital mix in line with targeted range – debt and hybrids 36.8% of total tangible capitalisation
- NZ$350m convertible note offering completed in June 2016
- S&P 'AA-' rating of core operating subsidiaries reaffirmed in March 2016

Regulatory Capital



BALANCE SHEET

	1H15 A$m	FY15 A$m	1H16 A$m	FY16 A$m
Assets				
Cash and cash equivalents	250	306	310	263
Investments	15,190	15,535	13,960	12,946
Investments in joint ventures and associates	650	561	455	486
Premium receivable	3,118	3,251	3,058	3,334
Trade and other receivables	719	653	636	987
Reinsurance and other recoveries on outstanding claims	3,761	3,713	4,298	4,689
Deferred acquisition costs	994	1,015	996	1,051
Deferred reinsurance expense	881	1,823	1,856	1,727
Goodwill and intangible assets	3,595	3,561	3,590	3,410
Other assets	1,052	984	1,104	1,137
Total assets	**30,210**	**31,402**	**30,263**	**30,030**
Liabilities				
Outstanding claims	12,831	12,687	12,141	11,741
Unearned premium	6,105	6,156	6,027	6,220
Interest bearing liabilities	1,772	1,762	1,781	1,962
Trade and other payables	1,295	1,321	1,233	1,498
Reinsurance premium payable	685	1,440	1,018	848
Other liabilities	715	1,018	914	976
Total liabilities	**23,403**	**24,384**	**23,114**	**23,245**
Net assets	**6,807**	**7,018**	**7,149**	**6,785**
Equity				
Equity attributable to holders of ordinary shares	6,583	6,817	6,930	6,563
Non-controlling interests	224	201	219	222
Total equity	**6,807**	**7,018**	**7,149**	**6,785**

IAG's total assets at 30 June 2016 were $30,030m compared to $30,263m at 31 December 2015. The small decrease includes the net effect of:

- A $1,014m reduction in investments, including payment of the 1H16 interim and special dividends amounting to $559m and settlements to Berkshire Hathaway under the quota share arrangement and the reinsurance package covering earthquake and asbestos exposures;

Balance sheet movements include further quota share effects

13. BALANCE SHEET & CAPITAL

- A $351m increase in trade and other receivables, reflecting higher reinsurance recoveries on paid claims at year end;
- A $391m increase in reinsurance and other recoveries, from recognition of amounts recoverable from Berkshire Hathaway under the quota share and asbestos reinsurance arrangements; and
- A $180m reduction in goodwill and intangible assets, following the accelerated amortisation and impairment of capitalised software.

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

IAG's total liabilities at 30 June 2016 were $23,245m, compared to $23,114m at 31 December 2015. Within the small net increase:

- A $400m reduction in claims payable, including further progress in the settlement of Canterbury earthquake-related liabilities;
- A $181m increase in interest bearing liabilities following the NZ$350m convertible note issue in June 2016, net of holders of the existing NZ$ instrument availing themselves of the reinvestment offer; and
- A $170m reduction in reinsurance premium payable, reflecting further payments to Berkshire Hathaway under the quota share agreement. This was lower than the sharp increase at 30 June 2015, which was driven by the inception of the quota share agreement.

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

IAG shareholders' equity (excluding non-controlling interests) decreased from $6,930m at 31 December 2015 to $6,563m at 30 June 2016, predominantly reflecting the combined effect of:

- Retained earnings in 2H16; exceeded by
- Payment of the 13 cents per share interim dividend and 10 cents per share special dividend at the end of March 2016 (total payment $559m).

OUTSTANDING CLAIMS

Net Outstanding Claims Liability

IAG's net outstanding claims liability at 30 June 2016 stood at $7,052m, compared to $8,974m at 30 June 2015. The near-$2bn reduction over the course of the year was predominantly driven by the progressive effect of the 20% quota share agreement with Berkshire Hathaway.

Lower net claims liability driven by quota share effects

As at 30 June 2016, the sensitivity of IAG's net outstanding claims liability to a 1% movement in the discount rate, as applied to expected future payments, was:

- +1%, a reduction in net outstanding claims liability of $156m; and
- -1%, an increase in net outstanding claims liability of $168m.

Claims Development

Note 2.2 of IAG's Annual Report includes a claims development table that shows the development of the estimate of ultimate claim costs for the ten most recent accident years at each reporting date. An extract from that table is set out on the following page.

13. BALANCE SHEET & CAPITAL

NET ULTIMATE CLAIMS PAYMENTS DEVELOPMENT TABLE	Accident Year Ended 30 June											
	2006 and prior A$m	2007 A$m	2008 A$m	2009 A$m	2010 A$m	2011 A$m	2012 A$m	2013 A$m	2014 A$m	2015 A$m	2016 A$m	TOTAL A$m
Development												
At end of accident year		4,790	4,713	4,727	4,677	5,028	5,227	5,187	5,637	6,320	4,986	
One year later		4,760	4,673	4,765	4,651	5,144	5,302	5,111	5,641	6,247		
Two years later		4,718	4,668	4,701	4,549	5,187	5,243	5,030	5,555			
Three years later		4,730	4,646	4,693	4,498	5,219	5,153	4,951				
Four years later		4,660	4,626	4,608	4,446	5,430	5,102					
Five years later		4,585	4,556	4,555	4,393	5,505						
Six years later		4,559	4,545	4,510	4,358							
Seven years later		4,549	4,530	4,471								
Eight years later		4,540	4,511									
Nine years later		4,537										
Current estimate of net ultimate claims		**4,537**	**4,511**	**4,471**	**4,358**	**5,505**	**5,102**	**4,951**	**5,555**	**6,247**	**4,986**	
Cumulative payments made to date		4,503	4,441	4,391	4,232	4,896	4,761	4,405	4,736	5,191	3,072	
Net undiscounted outstanding claims payments	**202**	**34**	**70**	**80**	**126**	**609**	**341**	**546**	**819**	**1,056**	**1,914**	**5,797**
Discount to present value	(14)	(2)	(5)	(5)	(8)	(19)	(19)	(28)	(41)	(56)	(61)	(258)
Net discounted outstanding claims payments	**188**	**32**	**65**	**75**	**118**	**590**	**322**	**518**	**778**	**1,000**	**1,853**	**5,539**
Claims handling costs												384
Risk margin												1,129
Net outstanding claims liability												**7,052**
Gross outstanding claims liability on the balance sheet												11,741
Reinsurance and other recoveries on outstanding claims												(4,689)
Net outstanding claims liability												**7,052**

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

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

The table highlights that, as at 30 June 2016, more than 95% of the total estimated liability for the 2007 to 2010 accident years had been paid. The equivalent figure for the 2011 to 2014 accident years is over 85%, and in excess of 83% for the 2015 accident year.

Risk Margins

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

The Group's policy is for the risk margin to be set so as to provide an overall probability of adequacy for the outstanding claims liability of 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment. The Group's probability of adequacy of the claims liability for FY16 is 90%, which is unchanged from the prior year.

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

The risk margin applied to the net central estimate of the outstanding claims liability was 19% at 30 June 2016 (FY15: 21%). The movement over the year reflects changes in outstanding claims mix, the vast majority of which stems from the reinsurance arrangement in respect of asbestos-related risks.

13. BALANCE SHEET & CAPITAL

CAPITAL

Capital Adequacy

IAG remains strongly capitalised, with regulatory capital of $4.62bn at 30 June 2016. At that date, IAG's Prescribed Capital Amount (PCA) multiple was 1.72, compared to a targeted benchmark of 1.4 to 1.6 times. This has decreased from the 1.80 multiple reported at 31 December 2015, owing to the net effect of:

- The Group's sound operating earnings performance in 2H16;
- Payment of the 1H16 interim dividend of 13 cents per share and special dividend of 10 cents per share; and
- A further favourable impact from the Berkshire Hathaway quota share arrangement of approximately 3bps.

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

At 30 June 2016 the Group's Common Equity Tier 1 (CET1) ratio was 1.06 times the PCA, compared to a targeted range of 0.9 to 1.1 times. The regulatory requirement is 0.6 times.

After allowance for the 2H16 dividend of 13 cents per share, which will be paid in October 2016, the PCA multiple at 30 June 2016 would exceed IAG's benchmark range, while the CET1 multiple would approach the mid-point of the equivalent target range.

IAG is strongly capitalised

Favourable quota share effect on regulatory capital requirement of approximately $400m in FY16

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H15 A$m	FY15 A$m	1H16 A$m	FY16 A$m
Common Equity Tier 1 Capital (CET1)				
Ordinary shares	6,775	7,275	7,275	7,275
Reserves	102	(38)	(18)	32
Retained earnings	(208)	(337)	(283)	(701)
Technical provisions in excess of liabilities	921	748	816	535
Minority interests	224	201	219	222
Less: Deductions	(4,773)	(4,637)	(4,628)	(4,525)
Total Common Equity Tier 1 Capital	**3,041**	**3,212**	**3,381**	**2,838**
Additional Tier 1 Capital				
Hybrid equities	817	762	762	707
Total Tier 1 Capital	**3,858**	**3,974**	**4,143**	**3,545**
Tier 2 Capital				
Subordinated term notes	876	811	811	1,074
Total Tier 2 Capital	**876**	**811**	**811**	**1,074**
Total Regulatory Capital	**4,734**	**4,785**	**4,954**	**4,619**
Prescribed Capital Amount (PCA)				
Insurance risk charge	1,560	1,500	1,418	1,378
Insurance concentration risk charge	250	200	200	200
Diversified asset risk charge	1,502	1,489	1,502	1,445
Aggregation benefit	(739)	(715)	(702)	(682)
Operational risk charge	345	343	341	341
Total Prescribed Capital Amount	**2,918**	**2,817**	**2,759**	**2,682**
PCA multiple	**1.62**	**1.70**	**1.80**	**1.72**
CET1 multiple	**1.04**	**1.14**	**1.23**	**1.06**

13. BALANCE SHEET & CAPITAL

Interest Bearing Liabilities

The Group's interest bearing liabilities stood at $1,962m at 30 June 2016, compared to $1,781m at 31 December 2015. The net increase of $181m is explained by:

- The issue of NZ$350m of unsecured subordinated convertible notes in June 2016; and
- A NZ$138m reduction in outstanding 2011 subordinated fixed rate bonds, following acceptance of a re-investment offer in respect of the new issue.

NZ$350m convertible note issue completed in June 2016

INTEREST BEARING LIABILITIES	1H15 A$m	FY15 A$m	1H16 A$m	FY16 A$m
Subordinated debt	852	841	858	1,042
Convertible Preference Shares	377	377	377	377
Reset Exchangeable Securities	550	550	550	550
Capitalised transaction costs/other	(7)	(6)	(4)	(7)
Total interest bearing liabilities	**1,772**	**1,762**	**1,781**	**1,962**

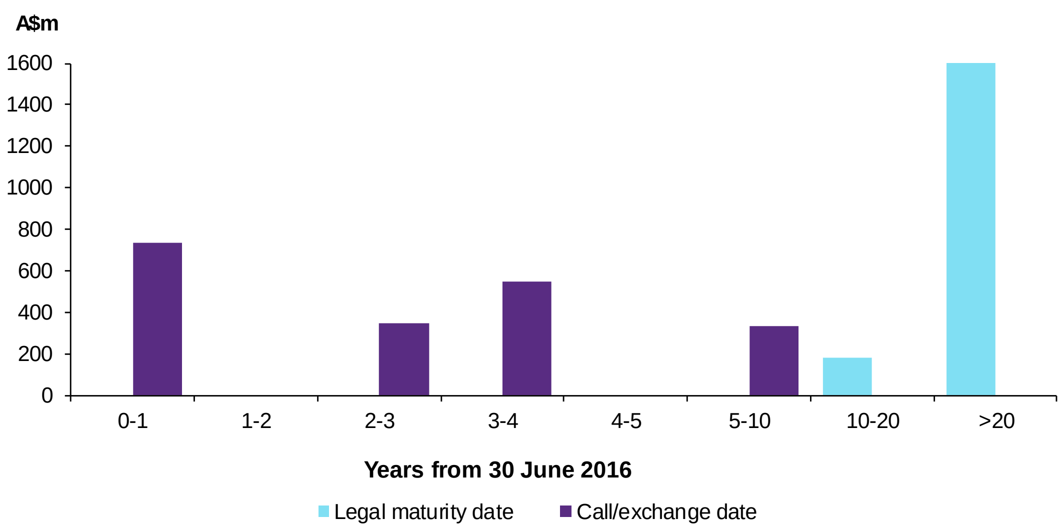
GROUP DEBT & HYBRID CAPITAL	Principal amount		Yield (net of swaps)	Rate	First Call or Exchange date	S&P rating
	A$m	A$m	%			
Subordinated term notes[1]	A$350	350	4.80%	Variable	Mar-19	'A-'
Subordinated fixed rate notes	£100	178	5.63%	Fixed	Dec-16	'BBB+'
Subordinated fixed rate bonds	NZ$187	179	7.50%	Fixed	Dec-16	'BBB+'
Subordinated fixed rate notes	NZ$350	335	5.15%	Fixed	Jun-22	'BBB+'
Total Debt		**1,042**				
Convertible Preference Shares (IAGPA)[2]	A$377	377	4.40%	Variable	May-17	'N/R'
Reset Exchangeable Securities (IANG)[3]	A$550	550	4.22%	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



13. BALANCE SHEET & CAPITAL

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.

In recognition of its strong capital position, and with a focus on maximising shareholder returns, IAG has announced a $300m off-market buy-back which is expected to be completed in mid-October 2016.

The buy-back is expected to improve IAG's future earnings per share and return on equity and is open to eligible shareholders registered as at 7.00pm on 25 August 2016. Eligible shareholders include those with a registered address in Australia or New Zealand. Other foreign shareholders are not eligible to participate.

In addition, IAG intends to refinance further aspects of its debt and hybrid capital in the short to medium term, via the issue of new instruments which are fully compliant with APRA's LAGIC regime. Proceeds from the June 2016 NZ$ convertible note issue will form part of this process, as non-fully compliant instruments are retired.

As at 30 June 2016, IAG's pre-LAGIC debt and hybrid instruments had incurred accumulated amortisation of approximately $210m, from an allowable regulatory capital perspective.

$300m off-market buy-back announced – completion in mid-October 2016

Capital Mix

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 30 June 2016, the IAG's capital mix was within the targeted ranges, with debt and hybrids representing 36.8% of total tangible capitalisation.

Capital mix within targeted ranges

CAPITAL MIX	1H15 A$m	FY15 A$m	1H16 A$m	FY16 A$m
Shareholder equity	6,807	7,018	7,149	6,785
Intangibles and goodwill	(3,595)	(3,561)	(3,590)	(3,410)
Tangible shareholder equity	**3,212**	**3,457**	**3,559**	**3,375**
Interest bearing liabilities	1,772	1,762	1,781	1,962
Total tangible capitalisation	**4,984**	**5,219**	**5,340**	**5,337**
Debt to total tangible capitalisation	**35.6%**	**33.8%**	**33.4%**	**36.8%**

Credit Ratings

On 23 March 2016, 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 30 June 2016..

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, as well as direct and broker/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
- 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 FY16 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 experiences a change of control, the other has a pre-emptive right to acquire that shareholder's interest 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

IAG established a ten-year distribution agreement with Coles (the supermarket chain owned by Wesfarmers Limited) to underwrite Coles Insurance, effective 30 June 2014. This was part of the transaction which saw IAG acquire the former Wesfarmers Insurance underwriting operations, at that date. Under this agreement, the Consumer Division underwrites car and home products for Coles Insurance in Australia.

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.

IAG has a general insurance joint venture in Malaysia with AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which was established in 2006. AmBank Group owns 51% of AmGeneral and IAG 49%. AmGeneral is a leading motor insurer and among the largest general insurers in Malaysia based on GWP. Together with AmBank, a full range of insurance products and services is offered through all customer touch points and channels.

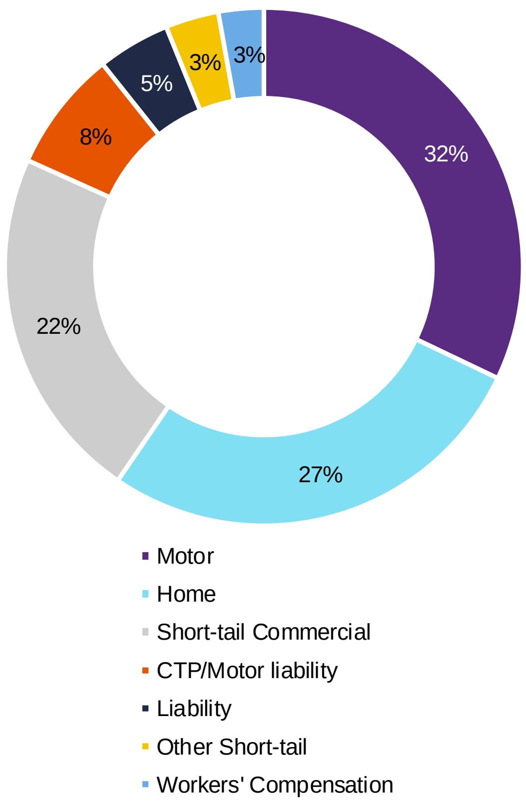
STATE BANK OF INDIA

State Bank of India (SBI) is India's largest and oldest bank, with origins 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 17,000 branches across all states of India, excluding associate banks.

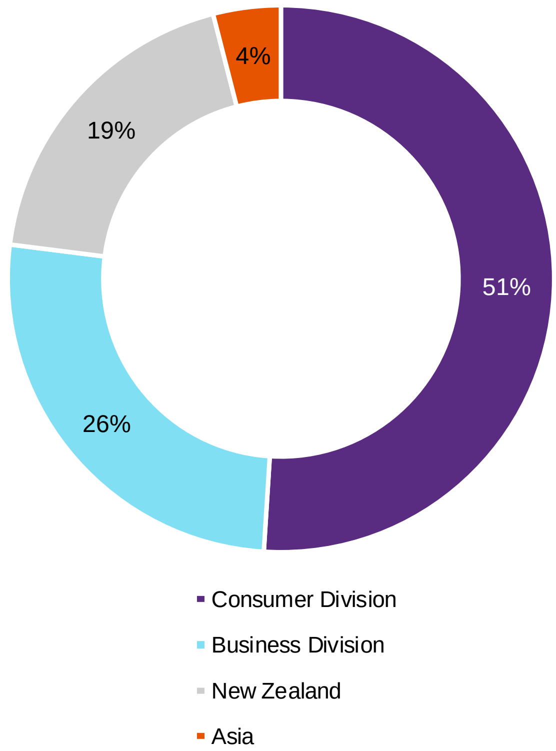
SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. SBI General commenced operations in 2010 and is building a portfolio in the corporate, retail and SME markets across India. SBI General has an exclusive corporate agency agreement with SBI 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%.

APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

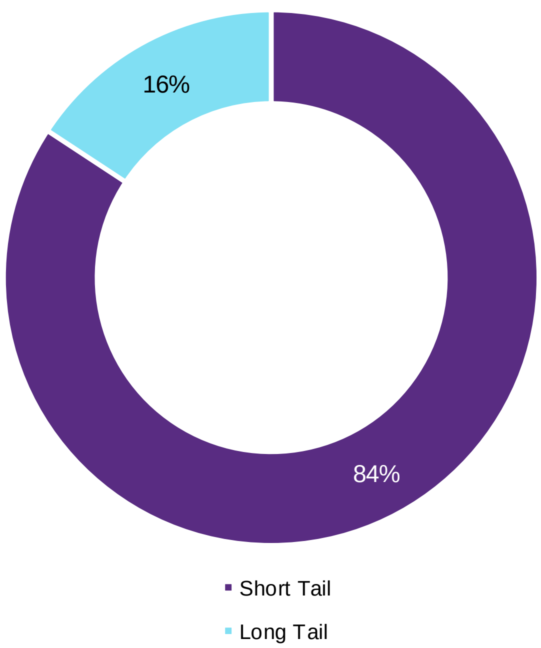
IAG GROUP GWP BY PRODUCT — FY16



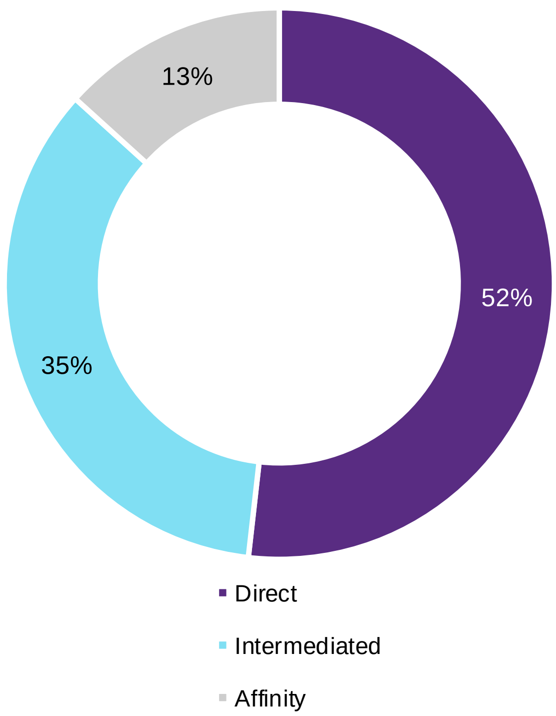
IAG GROUP GWP BY BUSINESS — FY16



IAG GROUP GWP BY TAIL — FY16



IAG GROUP GWP BY CHANNEL — FY16



APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 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.

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.

17-FEB-16 **IAG DELIVERS SOUND RESULT FOR 1H16 AND STRENGTHENS RISK PROFILE THROUGH NEW REINSURANCE ARRANGEMENT**

IAG reported a 1H16 insurance profit of $610m and an insurance margin of 14.9%. This was described as a sound result in challenging conditions in IAG's core Australian and New Zealand commercial markets. Net profit after tax of $466m was 19.5% lower than 1H15 after significantly lower investment income on shareholders' funds. In addition to a stable interim dividend of 13 cents per share, IAG announced a special dividend of 10 cents per share and an increase in its dividend payout policy to 60-80% of cash earnings on a full year basis. IAG reaffirmed its expectation of relatively flat GWP growth for FY16 and updated its reported insurance margin guidance to the lower end of the previously stated 14-16% range. IAG also announced an innovative reinsurance transaction with Berkshire Hathaway that mitigates its exposure to the Canterbury earthquakes and asbestos-related liabilities.

24-MAR-16 **DIVIDEND REINVESTMENT PLAN PRICING**

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at $5.4894 per share for the dividend payable on 30 March 2016.

2-MAY-16 **IAG IS CONSIDERING A SUBORDINATED NOTES OFFER**

IAG announced it was considering making an offer of up to NZ$250m of unsecured subordinated convertible notes to institutional investors and New Zealand retail investors, with the ability to accept up to NZ$100m in oversubscriptions.

9-MAY-16 **IAG LAUNCHES NEW ZEALAND SUBORDINATED NOTES OFFER**

IAG announced it was making an offer of up to NZ$250m of unsecured subordinated convertible notes to institutional investors and New Zealand retail investors, with the ability to accept up to NZ$100m in oversubscriptions. The offer forms part of IAG's capital management strategy and the proceeds will be used for general corporate purposes. The notes have a final maturity of 15 June 2043.

APPENDIX E KEY ASX RELEASES

18-MAY-16 **IAG SUBORDINATED NOTES OFFER OPEN**

IAG announced that, following strong investor demand for the offer of unsecured subordinated convertible notes, the issue size had been increased to NZ$350m. Each note has a face value and issue price of NZ$1, and a fixed interest rate until the first optional redemption date (15 June 2022) of 5.15% per annum. Any interest from then on will be a floating rate that is set at 3-monthly intervals.

9-JUN-16 **IAG ESTIMATES $60-80M NET CLAIM COST FROM EAST COAST LOW**

IAG advised its businesses had received approximately 10,000 claims in respect of the low pressure system which had recently impacted much of the east coast of Australia. IAG's current expectation was that this event would result in a pre-tax net claim cost in the range of $60-80m and that, after incorporation of this event, its net natural peril claim cost for FY16 would approximate its $600m perils allowance.

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.
DRP	Dividend Reinvestment Plan, that permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.

APPENDIX F GLOSSARY

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.
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.

APPENDIX F GLOSSARY

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	Prescribed Capital Amount, 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, a wholly-owned subsidiary of IAG.
RISK FREE RATE	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.
RISKS IN FORCE	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
ROE	Return on equity, being net profit after tax divided by average equity attributable to owners of the company.

APPENDIX F GLOSSARY

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

DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**) - 2,431,384,655 on issue at 30 June 2016
- Reset Exchangeable Securities (**IANG**) - 5,500,000 on issue at 30 June 2016
- Convertible Preference Shares (**IAGPC**) - 3,773,728 on issue at 30 June 2016

London Stock Exchange (LSE):

- Fixed Rate Subordinated Notes due 2026 (**70QG**) - £100.3m outstanding at 30 June 2016

NZX Limited (NZDX):

- Unsecured Subordinated Bonds due 2036 (**IAGFA**) - NZ$188m outstanding at 30 June 2016
- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**) - NZ$350m outstanding at 30 June 2016

KEY DATES

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, IAGFA and IAGFB quarterly distributions	15 September 2016
Annual General Meeting	21 October 2016
Payment date for IAGPC dividend	2 November 2016
Payment date for IANG, IAGFA and IAGFB quarterly distributions	15 December 2016
Announcement of half year results to 31 December 2016	16 February 2017*
Interim dividend – ordinary shares	
• Ex-dividend date	28 February 2017*
• Record date	1 March 2017*
• DRP record date	2 March 2017*
• Payment date	30 March 2017*
Payment date for IANG, IAGFA and IAGFB quarterly distributions	15 March 2017
Payment date for IAGPC dividend	2 May 2017
Payment date for IANG, IAGFA and IAGFB quarterly distributions	15 June 2017
Announcement of full year results to 30 June 2017	23 August 2017*

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

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