

THE STORY SO FAR.



INSURANCE AUSTRALIA GROUP LIMITED ABN 60 090 739 923

CREATING MOMENTUM FOR WORLD-LEADING CUSTOMER EXPERIENCES.

In recent months, we have made changes within our organisation – improving our agility and providing a sharper customer focus – that mean we can start to look more creatively at our future. We believe that future involves delivering world-leading customer experiences.



NEW BRAND FOR NEW PHASE IN OUR DEVELOPMENT.

In November we revealed our new brand identity, with a distinctive, modern and engaging logo and colour scheme. This reflects our future aspirations and supports our plans to engage with a broader set of stakeholders.

The new identity also strengthens the link between IAG and our customer brands. This will help our customers, who value knowing who stands behind the insurance brands they choose, particularly the financial security, strength and scale that comes from being backed by IAG.



IDENTIFYING GROWTH LEVERS TO ACHIEVE OUR STRATEGY.

Our overarching strategy is to create a company that is:

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

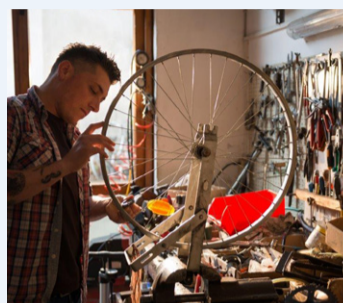
We will do this by focusing on three growth levers in Australia and New Zealand:

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

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

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

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



OUR FOCUS ON CUSTOMERS INFORMED THE NEW STRUCTURE WE ANNOUNCED IN DECEMBER 2015.

WE ARE STRUCTURED FOR SUCCESS.

In Australia, we have a Consumer Division focused on individuals and families, and a Business Division focused on businesses of all sizes.

These customer-facing businesses are supported by three divisions focusing on the customer experience, technology and operations:

- Customer Labs is driving product innovation through data and insights, brand architecture across the Group, and new business incubations and venturing.
- Digital Labs is providing digital and design innovation and identifying and harnessing disruptive technology. It will also build digital apps and ecosystems, and simplify existing core platforms.
- Operations is responsible for claims and functions such as procurement and supply chain management.

Our Asia and New Zealand businesses have moved into a new International Division which will grow our established presence in Malaysia, Thailand, India, Indonesia and Vietnam; and maintain our market-leading presence in the mature New Zealand market.

We have also created a Challenger Division in Australia, giving it independence and flexibility to develop products and deliver customer experiences in new ways that will act as a learning opportunity for the rest of the organisation.



IN THE LAST SIX MONTHS...

IAG has launched three innovative products created by bringing together customer needs and data insights.

In July we began trials of **InsureLite**, a solution for families suffering from home insurance affordability stress in Queensland.

In September, we released **ShareCover** insurance for people who rent out all or part of their home on a recognised sharing economy platform.

Also in September, in an Australian first, we partnered with Good Shepherd Microfinance to launch **Insurance 4 That**, an accessible and low-cost single item insurance product.

DRONES ASSESS DAMAGE IN AUSTRALIAN INSURER FIRST.

In January 2016, for the first time in Australia, IAG used drones to view damage caused by the devastating bushfires in Victoria's Great Ocean Road area, fast-tracking the assessment process for customer claims.

IAG¹ mobilised the drone technology through a property repair partner to inspect properties before physical access was granted by authorities and started processing customer claims immediately.

Aerial imagery shot by the drones also allowed both assessors and customers to review damage from a safe location, removing the risks associated with physical site visits such as asbestos, fallen power lines and land slips.

IAG worked with the Country Fire Authority throughout the process to ensure the use of drones would not impair fire fighting efforts.

We also provided a range of support to customers in the affected area through our CGU Insurance brand, including:

- mobile customer service through the CGU Insurance Major Event Rapid Response Vehicle,
- technical assistance with verified building consultants for customers who elected to manage the re-build process themselves,
- emergency accommodation assistance and immediate access to emergency funds, and
- 24/7 claims assistance.

¹ Claims for CGU Insurance, WFI and Coles Insurance were assessed using the drone technology co-ordinated through IAG's property repair partner.

THE NUMBERS.

IAG has achieved an insurance profit of \$610 million and an insurance margin of 14.9% for the first half of the 2016 financial year, despite challenging conditions in its core Australian and New Zealand commercial markets.

Gross written premium was \$5,543 million, reflecting the difficult commercial market conditions and lower Compulsory Third Party (CTP) volumes offset by growth in consumer premium and sound growth in Asia.

An underlying margin of 14.2% demonstrates the Group's strong profitability.

The Berkshire Hathaway quota share arrangement that came into effect on 1 July 2015 had a broadly neutral effect on our insurance profit, and a favourable effect of around 250 basis points on our underlying margin, in line with our expectations.

The reported first half insurance margin of 14.9% also includes:

- net natural peril claim costs of \$278 million, \$22 million lower than the related allowance and after a benefit of approximately \$130 million of recoveries under our catastrophe aggregate reinsurance cover;
- an adverse credit spread impact of \$15 million; and
- prior period reserve releases of \$60 million, equivalent to 1.5% of net earned premium, from higher than expected CTP releases and a NZ\$150 million increase to the risk margin relating to the February 2011 Canterbury earthquake.

Net profit after tax of \$466 million was 19.5% lower than for the same period last year, including a significantly lower contribution from investment income on shareholders' funds due to weaker equity markets in the period.

DIVISIONAL RESULTS

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

The **Australian Business Division** saw a 6.3% contraction in GWP, with a continuation of tough commercial market conditions pushing average rates lower, and strict adherence to underwriting disciplines contributing to lower volumes. The business maintained a double digit underlying margin of 10.7%, assisted by the quota share effect, with synergies from the Wesfarmers integration partially offsetting pressures from the market environment. The reported margin of 8.4% was lower than the underlying margin following an adverse perils experience compared to allowance.

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

Asia saw GWP growth of more than 20%, with sound growth in Thailand amplified by a favourable foreign exchange effect. This half also saw the first full six months' contribution from the small business acquired in Indonesia. Asia's overall earnings contribution was \$10 million, pushed lower by adverse mark-to-market movements on investments.

KEY FIGURES

\$5,543m

GROSS WRITTEN PREMIUM (\$M)

1H16	5,543
2H15	5,837
1H15	5,603

14.9%

INSURANCE MARGIN (%)

1H16	14.9
2H15	7.9
1H15	13.4

\$466m

NET PROFIT AFTER TAX (\$M)

1H16	466
2H15	149
1H15	579

13.0cps

DIVIDEND (CPS)

1H16	13.0	10.0
2H15	16.0	
1H15	13.0	

● Dividend
● Special Dividend

More detail about our results is contained in our 1H16 Investor Report and financial statements, which are available in the Results and Reports area of our website (www.iag.com.au)

THE STORY.

IAG has delivered a sound result in an increasingly complex and dynamic environment.

IAG's consumer businesses in Australia and New Zealand, representing more than 60% of the Group's gross written premium (GWP), are performing well, achieving strong profitability and modest GWP growth in a low claims inflation environment. Our ability to broadly maintain market share with limited movement on price demonstrates the strength and resilience of our market-leading brands.

The contribution to gross written premium growth by the consumer businesses was offset by challenging market conditions for our commercial businesses. Here, we are prudently maintaining our underwriting discipline in the most competitive conditions in almost four decades.

MANAGING CAPITAL, RISKS AND EARNINGS VOLATILITY

One of the factors that differentiates IAG is our ability to complete transactions that create value for shareholders and help us manage our capital and risk profile, and reduce earnings volatility.

Good examples are the AMI and Wesfarmers acquisitions, and our agreement with Berkshire Hathaway. This is the first reporting period to include the earnings impact of the 20% quota share arrangement with Berkshire Hathaway and we are pleased to report it has met our expectations, lowering earnings volatility and reducing regulatory capital requirements.

In a further move to improve our capital efficiency, we have entered into an innovate reinsurance transaction with Berkshire Hathaway that mitigates the Group's exposure to its two most material legacy risks - the Canterbury earthquakes and asbestos related liabilities.

DIVIDEND PAYOUT AND POLICY

The Board has determined to pay an interim fully franked dividend of 13.0 cents per ordinary share (cps), consistent with the last interim dividend of 13.0 cps and equal to a payout ratio of 62.7% of cash earnings. In recognition of our strong capital position, IAG will also pay a special fully franked dividend of 10.0 cps. Both dividends will be paid on 30 March 2016.

The special dividend allows us to quickly and effectively return capital to shareholders, while retaining a strong capital position at the upper end of our target range.

Recognising our strong capital position, we have also increased our dividend payout policy to 60-80% of cash earnings on a full year basis, up from 50-70%, for the 2016 financial year and beyond.

OUTLOOK

For the 2016 financial year we continue to expect gross written premium growth will be relatively flat, and our reported margin guidance¹ remains at 14-16%, although we expect this to be at the lower end of this range following the tougher than expected commercial market conditions experienced this half year.

We are driving future growth and profitability by sharpening our focus on customers' needs. Our goal is to create a company that is customer-led and data-driven, simpler and scalable, agile and quick to respond to the changes we are seeing in the community and in business.

As we work to achieve our strategy, we will continue to invest prudently for the future, and manage the business in the best interests of shareholders.

CHAIRMAN APPOINTMENT

In a change flagged at the 2015 annual general meeting in October, the IAG Board has appointed a new Chairman. Ms Elizabeth Bryan AM will assume this role effective 31 March 2016. Ms Bryan was appointed as a director of IAG in December 2014 and as Deputy Chairman in June 2015. Her depth of experience in leading some of Australia's most successful companies will be extremely valuable to IAG and its management team, and ensures the company remains in capable hands.



BRIAN SCHWARTZ AM
CHAIRMAN

PETER HARMER
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

¹ Assumptions behind the reported margin guidance include:
• Net losses from natural perils in line with allowance of \$600 million
• Prior period reserve releases of at least 1% of NEP
• No material movement in foreign exchange rates or investment markets

Excludes effect of run-off portfolio reinsurance which will be reported in the Group's net corporate expenses line.

Brian Schwartz

BRIAN SCHWARTZ AM
CHAIRMAN

Peter Harmer

PETER HARMER
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

AUSTRALIA



NEW ZEALAND



ASIA



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ONLINE INFORMATION
To view other information about IAG and to manage your shareholding online, visit www.iag.com.au
You can also register to receive email news alerts when IAG makes important announcements.

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 holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands. ³ 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. ⁴ IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India. ⁵ IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam. ⁶ IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.