

IAG FINANCE (NEW ZEALAND) LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016
APPENDIX 4D (ASX Listing rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	31 December 2016 \$000	31 December 2015 \$000
Revenue from ordinary activities	Down	5.6 %	12,066	12,778
Profit/(loss) from ordinary activities after tax attributable to shareholders	Down	15.5 %	262	310
Net profit/(loss) attributable to shareholders	Down	15.5 %	262	310

RESET EXCHANGEABLE SECURITIES (RES)	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
15 September 2016 payment	\$1.0630	\$1.0630
15 December 2016 payment	\$1.0017	\$1.0017

The next quarterly interest payment, which is expected to be \$0.9968 per RES (4.0425% per annum), is due for payment on 15 March 2017. This interest payment is expected to be fully franked.

Additional Appendix 4D disclosure requirements can be found in the half year financial report of IAG Finance (New Zealand) Limited for the period ended 31 December 2016 (Attachment A). This report is to be read in conjunction with the annual report of IAG Finance (New Zealand) Limited for the year ended 30 June 2016 and any public announcements made by IAG Finance (New Zealand) Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

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

ATTACHMENT A
IAG FINANCE (NEW ZEALAND) LIMITED
HALF YEAR FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

IAG FINANCE (NEW ZEALAND) LIMITED

ABN 97 111 268 243

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

IAG FINANCE (NEW ZEALAND) LIMITED
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DIRECTORS' REPORT

The Directors present their report together with the financial report of IAG Finance (New Zealand) Limited (Company) for the half year ended 31 December 2016 and the Auditor's Report thereon.

DIRECTORS

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

EB Bryan (Director since 31 March 2016), HA Fletcher (Director since 31 August 2008), PG Harmer (Director since 10 December 2015) and NB Hawkins (Director since 31 August 2008).

PRINCIPAL ACTIVITY

The Company issues Reset Exchangeable Securities (RES) to external investors and loans the entire amount to a related body corporate, a wholly owned subsidiary of Insurance Australia Group Limited (IAG).

The principal continuing activity of the Company is to perform all treasury functions of IAG's New Zealand operations. This function is performed through a New Zealand Branch of the Company.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

The net result of the Company after applicable income tax for the half year ended 31 December 2016 was a profit of \$262,000 (31 December 2015-profit of \$310,000).

The following quarterly interest payments on the RES were made during the half year:

PAYMENT DATE	AMOUNT PER RES	INTEREST RATE
15 September 2016	\$1.0630	4.2175% per annum
15 December 2016	\$1.0017	4.0180% per annum

REVIEW OF FINANCIAL CONDITION

The total assets of the Company, which at 31 December 2016 were \$551,959,000 (30 June 2016-\$552,010,000), relate predominantly to a loan to a related body corporate, a wholly owned subsidiary of IAG. The loan is attributable solely to the RES, valued at a face value of \$550,000,000 and accrued interest for the financial period. Refer to note 3.2 related party disclosures for further details.

The total liabilities of the Company, which at 31 December 2016 were \$551,259,000 (30 June 2016-\$551,222,000), relate mainly to the issued RES and accrued interest payable to external investors.

STRATEGY

A. STRATEGIC PRIORITIES

The continuing and sole strategy of the Company is to perform all treasury activities relating to IAG's New Zealand operations.

B. RISK MANAGEMENT

The Company forms part of the IAG Risk Management Strategy (RMS), as such it does not maintain a separate RMS.

Managing risk is central to the sustainability of IAG's business and delivery of value to IAG stakeholders. The IAG risk management framework is a core part of the governance structure, and includes internal policies, key risk management processes and culture. The RMS details the IAG principles, risk appetite, policies, key controls, and monitoring processes for managing key risk categories. The IAG Risk Committee oversees the Company's risk management framework as part of its oversight of IAG. Further details about IAG's policies on risk oversight and management are available on the IAG website.

OUTLOOK

The Company is expected to continue to perform all treasury functions of IAG's New Zealand operations. The New Zealand Branch will remain as the issuer of 5,500,000 RES.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in note 2.1 dividends.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of a matter subsequent to the end of the half year is set out below and in note 3.3 events subsequent to reporting date within the Financial Statements:

- On 22 February 2017, a dividend of \$500,000 per share was determined by the Board. The dividend will be paid on 22 February 2017.

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

The Lead Auditor's Independence Declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2016.

Signed at Sydney this 22nd day of February 2017 in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'N. Hawkins', written over a faint, illegible stamp or watermark.

Nicholas Hawkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

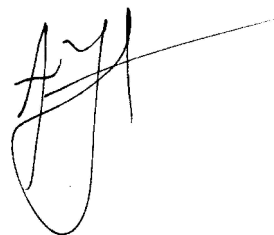
TO THE DIRECTORS OF IAG FINANCE (NEW ZEALAND) LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2016 there have been:

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



KPMG



Andrew Yates
Partner

Sydney
22 February 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	31 December 2016 \$000	31 December 2015 \$000
Total interest revenue	12,026	12,740
Interest expense on reset exchangeable securities	<u>(11,428)</u>	<u>(12,149)</u>
Net interest income	598	591
Other income	40	38
Unrealised exchange gains/(losses)	4	68
Realised exchange gains/(losses)	(1)	(10)
Other administration expenses	<u>(281)</u>	<u>(283)</u>
Profit/(loss) before income tax	360	404
Income tax (expense)/credit	<u>(98)</u>	<u>(94)</u>
Profit/(loss) for the period	<u>262</u>	<u>310</u>
Total comprehensive income/(expense) for the period, net of tax	<u>262</u>	<u>310</u>

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

BALANCE SHEET

AS AT 31 DECEMBER 2016

	NOTE	31 December 2016 \$000	30 June 2016 \$000
ASSETS			
Cash held for operational purposes		837	668
Current tax assets		5	248
Loans to related bodies corporate	3.2	551,110	551,087
Deferred tax assets		<u>7</u>	<u>7</u>
Total assets		<u>551,959</u>	<u>552,010</u>
LIABILITIES			
Trade and other payables		164	168
Interest payable on reset exchangeable securities		1,036	1,016
Payables to related bodies corporate	3.2	42	13
Employee benefits provision		17	25
Reset exchangeable securities	3.1	<u>550,000</u>	<u>550,000</u>
Total liabilities		<u>551,259</u>	<u>551,222</u>
Net assets		<u>700</u>	<u>788</u>
EQUITY			
Share capital		-*	-*
Retained earnings		<u>700</u>	<u>788</u>
Total equity		<u>700</u>	<u>788</u>

* The share capital is \$1.00 and rounded to zero.

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	SHARE CAPITAL \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
31 December 2016			
Balance at the beginning of the financial period	-*	788	788
Profit/(loss) for the period	-	262	262
Transactions with owners in their capacity as owners			
Dividends declared and paid	-	(350)	(350)
Balance at the end of the financial period	-	700	700
31 December 2015			
Balance at the beginning of the financial period	-*	13,518	13,518
Profit/(loss) for the period	-	310	310
Transactions with owners in their capacity as owners			
Dividends declared and paid	-	(500)	(500)
Balance at the end of the financial period	-	13,328	13,328

* The share capital is \$1.00 and rounded to zero.

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

CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	31 December 2016 \$000	31 December 2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and trust distributions received	12,003	12,633
Interest costs paid	(11,422)	(12,047)
Income taxes refund/(paid)	145	(81)
Other operating receipts	40	38
Other operating payments	(250)	(259)
Net cash flows from operating activities	516	284
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(350)	(500)
Net cash flows from financing activities	(350)	(500)
Net movement in cash held	166	(216)
Effects of exchange rate changes on balances of cash held in foreign currencies	3	58
Cash and cash equivalents at the beginning of the financial period	668	979
Cash and cash equivalents at the end of the financial period	837	821

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

NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW

NOTE 1.1 INTRODUCTION

The financial report is structured in order to provide prominence to the disclosures that are considered most relevant to the understanding of the operations, results and financial position of the Company. The Company operates as a single segment and accordingly the information presented in the financial statements represents the segment reporting information.

NOTE 1.2 ABOUT THIS REPORT

A. CORPORATE INFORMATION

IAG Finance (New Zealand) Limited (Company) is a for-profit company, incorporated and domiciled in Australia and limited by shares. It has reset exchangeable securities (RES) publicly traded on the Australian Securities Exchange (ASX). Its registered office is Level 26, 388 George Street, Sydney, NSW 2000, Australia and the principal place of business is Level 1, NZI Centre, 1 Fanshawe Street, Auckland, New Zealand. This financial report covers the financial statements of the Company for the half year period ended 31 December 2016.

This report is also to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The parent, and ultimate parent entity of the Group, is Insurance Australia Group Limited (IAG) which is incorporated in Australia and listed on the ASX.

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report.

B. STATEMENT OF COMPLIANCE

This general purpose half year financial report was authorised by the Board of Directors for issue on 22 February 2017 and complies with Australian Accounting Standard AASB 134 Interim Financial Reporting and the recognition and measurement requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and the ASX Listing Rules.

C. BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report. All values are rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

The balance sheet is prepared with the assets and liabilities presented broadly in order of liquidity.

The financial report is presented in Australian dollars, which is the functional currency of the Company.

Changes to comparatives

As a result of the reorganisation of the financial report, certain comparative items have been reclassified from the Company's prior period financial report to conform to the current period's presentation.

D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

The accounting policies adopted in the preparation of this financial report have been applied consistently and are the same as those applied for the previous reporting year, unless otherwise stated. The significant accounting policies adopted in the preparation of this financial report are set out within the relevant note in the annual report for the year ended 30 June 2016.

I. Changes to accounting policies

There were no new Australian Accounting Standards and Interpretations issued and effective for the current reporting period which had a material financial impact on the Company.

II. Critical accounting estimates and judgements

There are no accounting estimates and assumptions used, or judgements made, which are considered to have a significant impact on the amounts recognised in the financial report.

2. SIGNIFICANT EVENTS AND TRANSACTIONS

SECTION INTRODUCTION

This section comprises disclosures on the events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the end of the last annual reporting period. Information disclosed in relation to those events and transactions provides an update on the relevant information presented in the most recent annual financial report.

NOTE 2.1 DIVIDENDS

	31 December 2016 \$000	31 December 2015 \$000
A. ORDINARY SHARES		
2016 final dividend (paid 19 August 2016): \$350,000 (2015-\$500,000) per ordinary share	350	500
B. DIVIDEND NOT RECOGNISED AT REPORTING DATE		
2017 interim dividend: \$500,000 (2016-\$12,800,000) per ordinary share to be paid on 22 February 2017	500	12,800

3. INTERIM DISCLOSURES

SECTION INTRODUCTION

This section includes other information that must be disclosed to comply with the interim reporting Accounting Standard (AASB 134), Corporations Act and ASX listing rules, but which are considered less relevant to understanding the changes in the Company's financial position and performance since the end of the last annual reporting period.

NOTE 3.1 RESET EXCHANGEABLE SECURITIES

	31 December 2016		30 June 2016	
	Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
COMPOSITION				
5,500,000 reset exchangeable securities	<u>550,000</u>	<u>571,560</u>	<u>550,000</u>	<u>550,000</u>

The RES are publicly traded on the ASX which is considered an active market and so the fair value of the instrument at a point in time is taken to be the listed offer price (fair value hierarchy level 1). The listed offer price as at reporting date was \$103.92 per \$100.00 of face value (30 June 2016-\$100.00 per \$100.00 of face value).

NOTE 3.2 RELATED PARTY DISCLOSURES INTRAGROUP BALANCE SHEET TRANSACTIONS

	31 December 2016 \$	30 June 2016 \$
Assets		
Loan to other bodies corporate - IAG (NZ) Holdings Limited*	551,109,924	551,086,661
Liabilities		
Amounts payable to other related parties of the IAG Group	42,244	12,529

* The balance at reporting date included accrued interest of \$1,109,924 (30 June 2016-\$1,086,661) which is due in three months.

These intragroup balances are considered highly liquid and of negligible credit risk and so the carrying amount is a reasonable estimation of the fair value of the balances.

NOTE 3.3 EVENTS SUBSEQUENT TO REPORTING DATE

As the following transaction occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of this in the financial statements for the current half year ended 31 December 2016. This includes:

INTERIM DIVIDEND

- On 22 February 2017, a dividend of \$500,000 per share was determined by the Board. The dividend will be paid on 22 February 2017.

NOTE 3.4 NET TANGIBLE ASSETS

	31 December 2016	30 June 2016
	\$000	\$000
Net tangible assets per ordinary share	<u><u>700</u></u>	<u><u>788</u></u>

NOTE 3.5 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

There were no new Australian Accounting Standards and Interpretations issued and effective for the current reporting period which had a material financial impact on the Company.

DIRECTORS' DECLARATION

In the opinion of the Directors of IAG Finance (New Zealand) Limited:

- the financial statements and notes 1 to 3.5 are in accordance with the Corporations Act 2001 including:
 - giving a true and fair view of the financial position of the Company as at 31 December 2016 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 22nd day of February 2017 in accordance with a resolution of the Directors.



Nicholas Hawkins
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE EQUITY HOLDERS OF IAG FINANCE (NEW ZEALAND) LIMITED

REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of IAG Finance (New Zealand) Limited (Company), which comprises the balance sheet as at 31 December 2016, statement of comprehensive income, statement of changes in equity and cash flow statement for the half year ended on that date, notes 1 to 3.5 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Company.

DIRECTORS' RESPONSIBILITY FOR THE HALF YEAR FINANCIAL REPORT

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

AUDITOR'S RESPONSIBILITY FOR THE REVIEW OF THE HALF YEAR FINANCIAL REPORT

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Company's financial position as at 31 December 2016 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of IAG Finance (New Zealand) Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

INDEPENDENCE

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

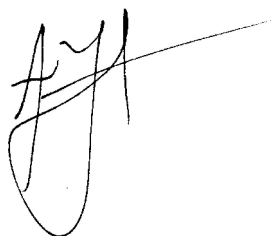
CONCLUSION

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of IAG Finance (New Zealand) Limited is not in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.



KPMG



Andrew Yates
Partner

Sydney
22 February 2017

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