



INVESTOR REPORT FY17

23 August 2017

IMPORTANT INFORMATION

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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, 1H17 refers to the six months ended 31 December 2016. All references starting with '2H' refer to the six months ended 30 June, being the second half of IAG's financial year. For example, 2H17 refers to the six months ended 30 June 2017. All references starting with 'FY' refer to the financial year ended 30 June. For example, FY17 refers to the year ended 30 June 2017.

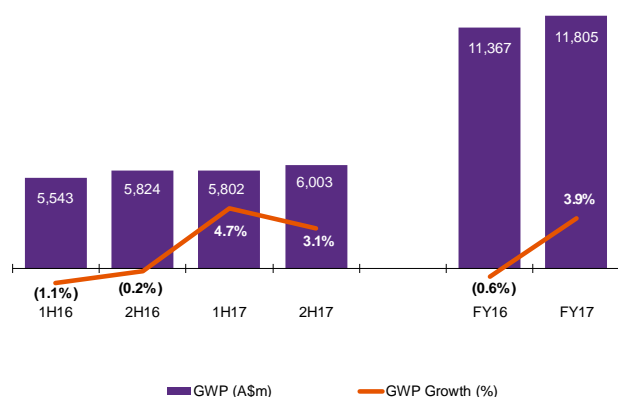
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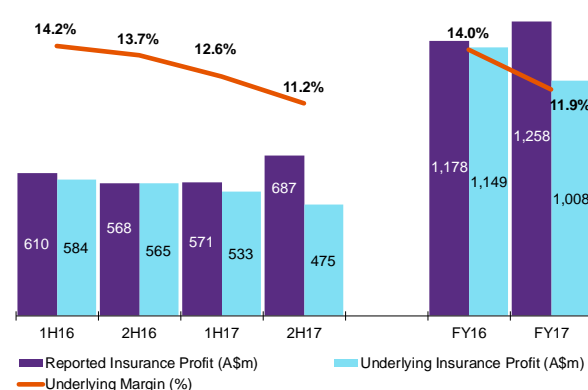
FY17 GROUP RESULTS

KEY RESULTS	FY16 A\$m	1H17 A\$m	2H17 A\$m	FY17 A\$m	FY17 vs FY16 Mvt
Gross written premium (GWP)	11,367	5,802	6,003	11,805	+3.9%
Net earned premium (NEP)	8,228	4,244	4,221	8,465	+2.9%
Insurance profit	1,178	571	687	1,258	+6.8%
Net profit after tax (NPAT)	625	446	483	929	+48.6%
Reported insurance margin	14.3%	13.5%	16.3%	14.9%	+60bps
Underlying insurance margin	14.0%	12.6%	11.2%	11.9%	-210bps
Diluted EPS (cents per share)	25.34	17.92	19.70	37.72	+48.9%
Cash EPS (cents per share)	35.78	19.98	21.64	41.60	+16.3%
Cash return on equity (ROE)	13.0%	14.8%	15.8%	15.2%	+220bps
Ordinary dividend (cents per share)	26.0	13.0	20.0	33.0	+26.9%
Common Equity Tier 1 Capital (CET1) multiple	1.06	1.09	1.09	1.09	+3bps

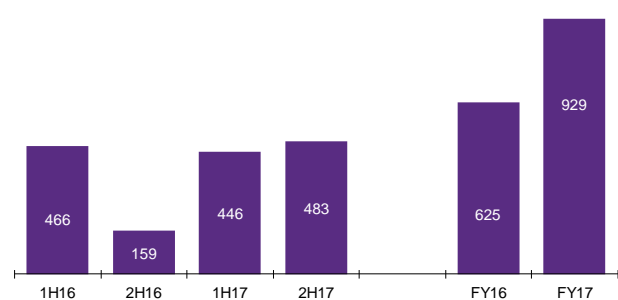
GWP GROWTH



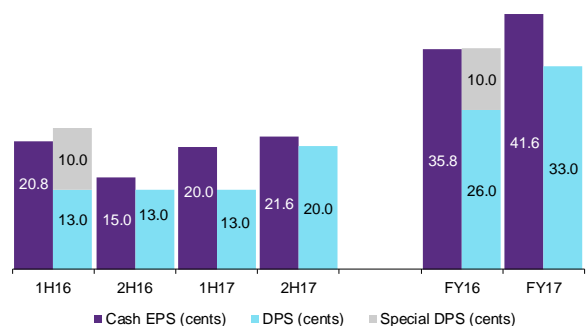
INSURANCE PROFIT & MARGIN



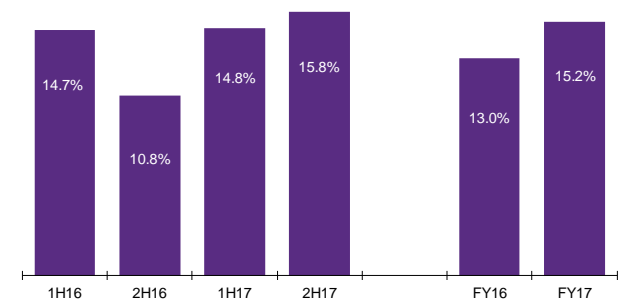
NET PROFIT AFTER TAX (A\$m)



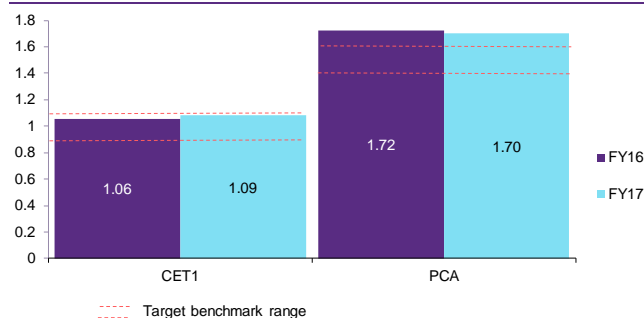
CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Like-for-like GWP growth of over 4%, including rate response to claim cost inflation in short tail motor
- Positive momentum in Australian commercial rates, plus 2H17 upturn in New Zealand
- Margins from short tail personal lines remained strong, although some drag from short tail motor claims
- Lower claims frequency in long tail CTP in 2H17 – prospect of further improvement post NSW reform
- Softer than expected underlying margin of 11.9% – adverse commercial large loss experience in 2H17
- Higher reported margin of 14.9%, as high reserve releases partially offset by perils overrun
- 27% increase in full year dividend to 33 cents per share fully franked – 79% of cash earnings
- Additional \$1bn gross layer of catastrophe reinsurance purchased – very strong reinsurance position heading into FY18, with aggregate cover active
- Strong capital position maintained: in upper half of (CET1 1.09), or above (PCA 1.70), benchmark ranges
- Optimisation program progressing to plan – significant net benefit anticipated from FY19 onwards
- Next step of simplification process announced with formation of single Australian division from July 2017
- Significant progress in transformation to digitally-enabled, customer-led organisation with strong focus on innovation – launch of Firemark Labs hubs in Singapore and Sydney
- Low single digit GWP growth expected in FY18 – ongoing rate momentum in personal short tail and commercial lines offset by lower NSW CTP rates as a result of reform measures
- FY18 reported insurance margin guidance of 12.5-14.5%, including lower reserve release expectation of at least 2% of NEP
- Stronger underlying performance expected in FY18, reflecting earned impact of rate increases and anticipated return to more normal commercial large loss experience

FY17 OVERVIEW

IAG produced a headline margin of 14.9% in FY17, towards the upper end of the revised guidance of 13.5-15.5% provided on 28 June 2017. Underlying performance was softer than anticipated, with an underlying margin of 11.9% (FY16: 14.0%) falling short of original expectations owing to:

- Higher than expected claims inflation in short tail motor in Australia and New Zealand; and
- Elevated large loss experience in commercial classes, notably in Australia, which was particularly adverse in 2H17.

GWP growth of 3.9% was higher than that expected at the outset of the year, housing a rate response to the short tail motor claim issues being experienced and better than expected retention in Australian commercial lines. Overall like-for-like GWP growth comfortably exceeded 4% and was primarily rate-driven, with increased momentum evident in 2H17.

Short tail personal lines in Australia and New Zealand continued to generate solid growth, predominantly reflecting higher rates to counter motor claim cost inflation. Overall volumes were relatively flat, with growth in motor offset by a modest decline in home. Underlying short tail profitability was strong, but slightly lower than FY16, as earned rate effects lagged claims inflation.

Long tail CTP profitability improved in 2H17, particularly in NSW, as lower claim frequency resulted from initial reform measures in late calendar 2016. IAG remains confident scheme reform in NSW will assist further improvement in profitability after it becomes effective towards the end of calendar 2017.

Commercial lines' profitability in Australia has continued to be adversely affected by the incidence of large property losses, which were particularly elevated in 2H17. The modest rate increases implemented from the conclusion of calendar 2015 have continued to gather pace, with greater earned benefit anticipated in FY18. In New Zealand, 2H17 saw a marked improvement in commercial rates, post the Kaikoura earthquake (November 2016).

Lower than originally expected underlying result in environment of increased claim cost pressures

1. EXECUTIVE SUMMARY

While producing an improvement in 2H17, Asia delivered a lower full year result, influenced by increased competitive pressures in the Thai and Malaysian motor markets, and increased claim costs in Thailand, including those from flood events. Regional proportional GWP was flat, with strong ongoing growth in India countering trends in Thailand and Malaysia.

A higher reported margin of 14.9% (FY16: 14.3%) included prior period reserve releases well in excess of original expectations, at 5.4% of NEP, reflecting the relative absence of inflation. This was partially offset by an increase in net natural peril claim costs of over \$160m, which overran allowance by in excess of \$140m. This included three large events which each contributed a net claim cost well in excess of \$100m.

Progress on IAG's optimisation program has been in line with expectations, with a range of cost-out initiatives building over the course of the year. As foreshadowed, a small net negative of the order of \$12m was borne within the FY17 insurance profit, as modest initial benefits were more than offset by related implementation costs. The creation of a single Australian division, with effect from July 2017, is the next step in simplifying IAG's operating model as part of this program.

GROSS WRITTEN PREMIUM (GWP)

GWP growth of 3.9% was in line with the 'low single digit growth' guided to in February 2017, while like-for-like growth comfortably exceeded 4%. Within this outcome were:

- An ongoing rate response to claim cost pressures in short tail motor;
- Further improvement in Australian commercial rates, while maintained retention levels were better than originally anticipated;
- A post-earthquake improvement in commercial rates in New Zealand in 2H17;
- Lower GWP in Asia, reflecting intensified price competition in motor in Thailand; and
- An overall positive foreign exchange translation effect (+0.5%).

In addition, the FY17 GWP outcome contained:

- An initial \$73m contribution from IAG's entry into the South Australian CTP market from 1 July 2016, within Consumer; and
- The absence of approximately \$130m of GWP owing to the divestment of the Swann Insurance motor dealership business in early August 2016, within Business.

UNDERLYING MARGIN

A lower underlying margin of 11.9% (FY16: 14.0%) included:

- An adverse impact of 70bps from an \$80m (13%) increase in natural perils allowance to \$680m;
- Increased short tail motor claims inflation in both Australia and New Zealand, where the earned effect of related rate increases has yet to match higher claim costs;
- Elevated large loss experience in commercial lines, particularly in Australia in 2H17;
- A slight drag from the Satellite business (in Consumer), which delivered strong growth but operates at a lower level of profitability; and
- Lower investment income following completion of the asbestos reinsurance arrangement in 2H16.

Optimisation program progressing to plan

GWP growth of 3.9%, including short tail motor rate increases and increased momentum in commercial rates

Lower underlying margin includes 70bps adverse effect from higher perils allowance

1. EXECUTIVE SUMMARY

Counteracting forces were the greater than \$40m reduction in non-quota share reinsurance expense in FY17 and some improvement in NSW CTP profitability in 2H17 as small claim frequency eased.

IAG's underlying margin is 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.

REPORTED INSURANCE MARGIN

A reported insurance profit of \$1,258m was nearly 7% higher than FY16 (\$1,178m). The reported insurance margin of 14.9% (FY16: 14.3%) included:

- Significantly higher than originally expected prior period reserve releases of \$457m, equivalent to 5.4% of NEP (FY16: 2.5%) and derived from Australian long tail classes;
- Net natural peril claim costs of \$822m (FY16: \$659m), which exceeded allowance by over \$140m and included significant inputs from the Kaikoura earthquake, Northern Sydney hailstorm and Tropical Cyclone Debbie events; and
- A favourable credit spread impact of \$20m, compared to an adverse effect of \$37m in FY16.

Higher reported insurance margin of 14.9% - high reserve releases partially offset by increased peril costs

DIVISIONAL HIGHLIGHTS

DIVISION	FY16				FY17			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported A\$m	Growth %	Reported %	Underlying %	Reported A\$m	Growth %	Reported %	Underlying %
Australia	8,780	(0.3)	16.3	13.7	9,081	3.4	17.5	11.5
Consumer	5,801	3.3	19.8	16.0	6,119	5.5	21.8	13.9
Business	2,979	(6.7)	10.0	9.7	2,962	(0.6)	9.2	6.9
New Zealand	2,182	(3.7)	8.6	16.9	2,339	7.2	7.6	14.8
Asia	386	9.3	nm	nm	366	(5.2)	nm	nm
Corporate & Other	19	nm	nm	nm	19	nm	nm	nm
Total Group	11,367	(0.6)	14.3	14.0	11,805	3.9	14.9	11.9

Australia (77% of GWP) reported GWP growth of 3.4%, a lower underlying margin of 11.5% and an increased reported margin (17.5%). Within this:

- **Consumer** (52% of GWP) produced a strong underlying margin of 13.9%. Short tail lines generated GWP growth of 4.7% reflecting the rating response to increased claim costs, particularly in motor. Long tail CTP GWP increased by over 10%, owing to entry into the South Australian market and rate increases in NSW. Current year NSW CTP profitability improved in 2H17, as small claim frequency reduced. Consumer's reported margin, of 21.8%, benefited from reserve releases from long tail classes well in excess of original expectations; and
- **Business** (25% of GWP) generated flat GWP, despite shedding ~\$130m of premium as a result of the divestment of the Swann Insurance car dealership business. Like-for-like GWP growth exceeded 4%, with business retention levels holding up well and increased rate momentum evident in most intermediated classes. A lower underlying margin of 6.9% (FY16: 9.7%) embraced an increased large loss experience, with particularly elevated levels in 2H17. A slightly lower reported margin of 9.2% (FY16: 10.0%) included higher reserve releases.

Strong performances from consumer businesses in Australia and New Zealand

1. EXECUTIVE SUMMARY

New Zealand (20% of GWP) produced a strong underlying performance, with an underlying margin of 14.8%. This was despite increased claim cost pressures, notably in motor. GWP growth of 7.2% included a favourable foreign exchange translation effect. Local currency GWP growth of 4.3% embraced rate-driven increases in personal lines, volume growth in motor and a recovery in commercial lines pricing in 2H17. A lower reported margin of 7.6% absorbed a net claim cost of \$120m from the Kaikoura earthquake in 1H17, and those from a sequence of significant natural peril events in 2H17.

Asia (3% of GWP) reported a decline in consolidated GWP of over 5%, as intensified price competition in Thailand was exaggerated by an adverse foreign exchange translation effect. Asia's overall earnings contribution decreased to \$10m (FY16: \$26m), as both Thailand and Malaysia incurred the effect of increased competitive pressures and, in the case of Thailand, flood-related claim costs. The combined contribution from the developing markets of India, Vietnam and Indonesia improved, driven by the move into profit from India as better claim and expense outcomes were supplemented by higher investment income.

NET PROFIT AFTER TAX / ROE

Net profit after tax of \$929m was nearly 50% higher than FY16 (\$625m). In addition to the effect of a higher insurance profit, this outcome included:

- A significantly higher contribution from investment income on shareholders' funds, incorporating stronger equity market returns;
- A greater than \$30m deterioration in the contribution from fee based business, which included a provision for costs associated with withdrawal from the NSW workers' compensation scheme; and
- A slightly higher tax rate of 23.6%, compared to FY16 (22.3%). Both years included favourable tax effects on FY11-related earthquake reinsurance recoveries by offshore captive vehicles, while FY16 also included the favourable resolution of a tax audit associated with IAG's former UK operations. The effective tax rate was 28.8% in 2H17 and is expected to remain at a similar level in future periods.

FY16's result included nearly \$140m (post-tax) of non-cash accelerated amortisation and impairment of capitalised software assets.

Reported return on equity (ROE) in FY17 was 14.3%, while cash ROE was 15.2%. This compares to IAG's through-the-cycle target of approximately 1.5 times its weighted average cost of capital (WACC), which equates to an ROE of approximately 15% on a longer term perspective.

DIVIDEND

The Board has determined to pay a final fully franked dividend of 20.0 cents per ordinary share, bringing the full year dividend to 33.0 cents. This equates to a cash payout ratio of nearly 79%, at the upper end of IAG's stated policy of distributing 60-80% of cash earnings in any financial year. Total dividend payments in respect of FY16 amounted to 36.0 cents per share, and included a special dividend of 10.0 cents per share.

CAPITAL

IAG's capital position remains strong. The Common Equity Tier 1 (CET1) ratio was 1.09 at 30 June 2017, against a target benchmark of 0.9-1.1, while the Prescribed Capital Amount (PCA) multiple stood at 1.70, compared to a targeted range of 1.4-1.6.

Cash ROE of 15.2%,
slightly above long term
target

Full year dividend equates
to 78.9% of cash earnings

Strong capital position
maintained

1. EXECUTIVE SUMMARY

After allowance for the final dividend of 20 cents per share, which will be paid in early October 2017, the adjusted CET1 multiple at 30 June 2017 would be at the lower end of IAG's benchmark range, while the PCA multiple would be slightly above the mid-point of the equivalent target range.

As part of its broader capital management program, IAG is currently exploring additional reinsurance quota share opportunities with its counterparties which have the potential to further strengthen IAG's regulatory capital position.

IAG's debt to total tangible capitalisation ratio at 30 June 2017 was 31.9%, towards the lower end of its targeted 30-40% range. During FY17 IAG's debt reduced by over \$300m, following a series of capital management initiatives which retired less efficient older instruments and, where appropriate, replaced them with fully compliant new instruments.

IAG's core 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 90% at 30 June 2017.

FY18 OUTLOOK

IAG expects to report an improved underlying operating performance in FY18.

Low single digit GWP growth is expected in FY18, reflecting the net effect of:

- Ongoing rate initiatives to help address short tail claim pressures, notably in motor;
- Further positive rate momentum in commercial classes, both in Australia and New Zealand;
- Modest underlying volume growth, close to system;
- Lower NSW CTP pricing, in recognition of the greater certainty attached to claim outcomes as a result of scheme reform; and
- An up to \$60m reduction in GWP from the combination of Swann Insurance's decision to cease participation via the motorcycle dealer channel and the residual effect of the divestment of the Swann Insurance car dealership business in early FY17.

IAG's reported margin guidance for FY18 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 (FY17: \$680m), after taking into account the status of the aggregate cover at 30 June 2017. At that date this cover was active, providing approximately \$340m of protection (post-quota share) for the six months to 31 December 2017 and serving to limit a first event retention to \$20m;
- Prior period reserve releases of at least 2% of NEP (FY17: 5.4%), on the assumption that the presently particularly benign inflationary environment continues to prevail;
- No material movement in foreign exchange rates or investment markets; and
- A relatively neutral impact from optimisation program initiatives, as benefits are matched by related costs.

While prior period reserve releases of at least 2% of NEP are expected in FY18, it remains IAG's belief that long term reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods.

Low single digit GWP growth expected in FY18

Reported insurance margin guidance of 12.5-14.5%, including 2% reserve release assumption

2. STRATEGY

OUR PURPOSE, OPPORTUNITY AND PROMISE



OUR STRATEGIC PRIORITIES



Customer

We want to deliver **amazing customer experiences** that contribute to making their world a safer place.



Simplification

We need to ensure we have a **simplified operating platform** that allows us to deliver these amazing experiences in the most efficient and effective way, and creates the capacity to continue to invest in our business.

LEADING

FUELLING

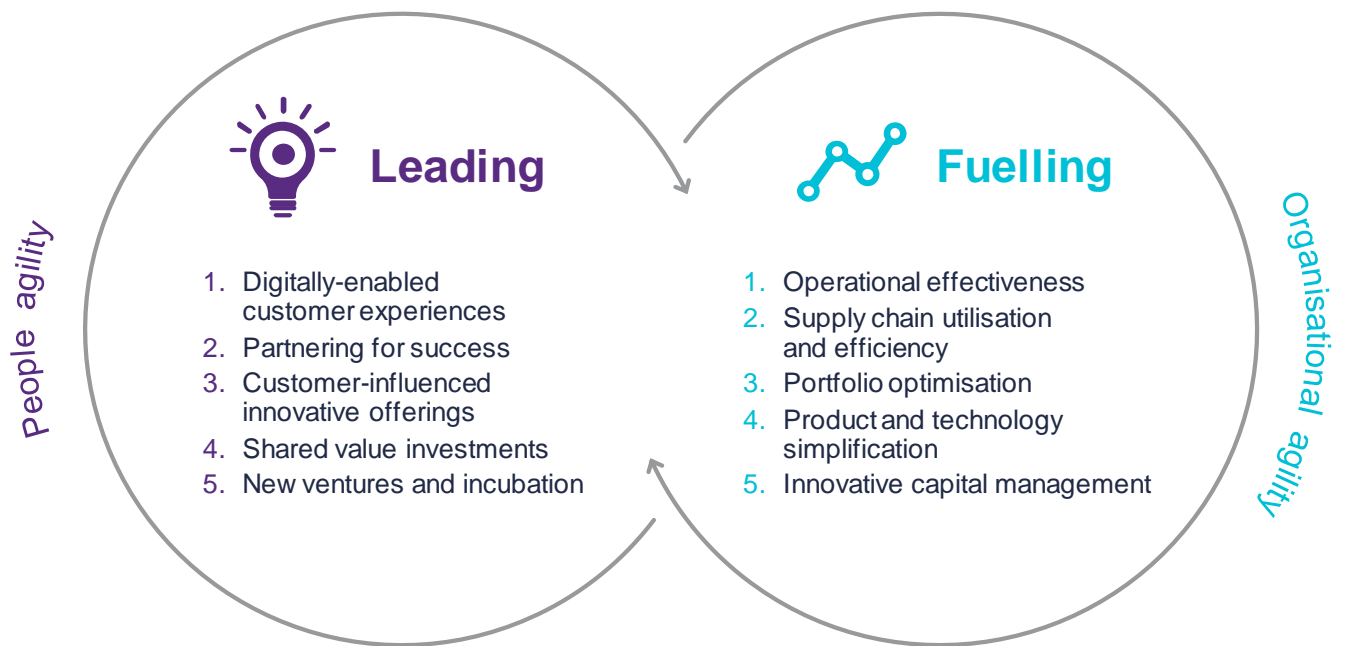


Agility

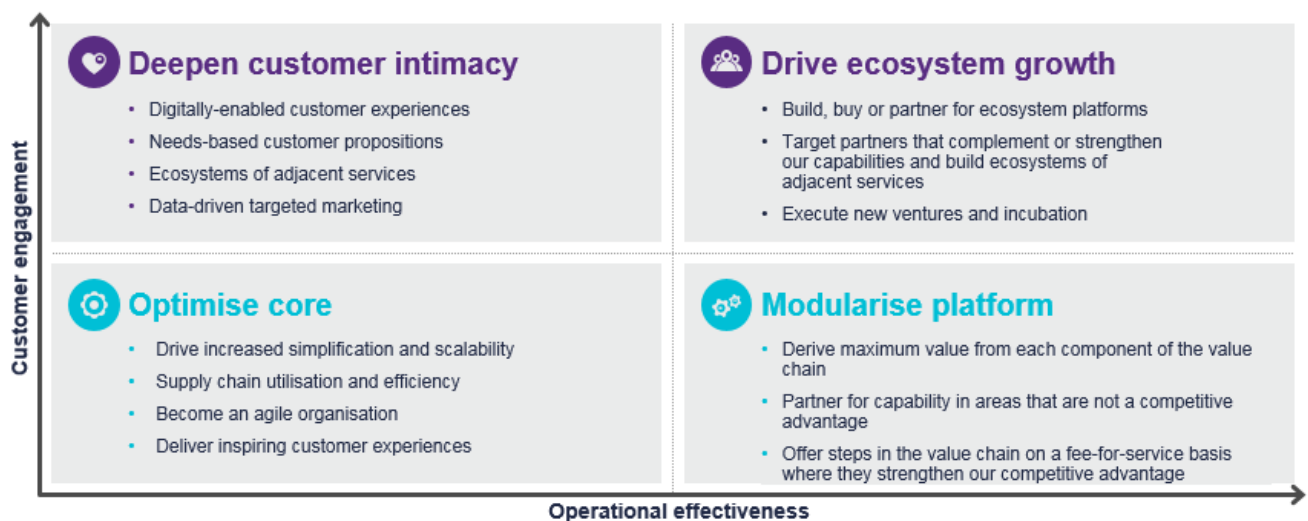
To enable our strategy, we are creating an **agile organisation** using organisational design, culture measurement and workforce strategy so our people can help us meet new and emerging customer needs.

2. STRATEGY

TWO STRATEGIC THEMES



STRATEGIC FRAMEWORK – PREPARING IAG FOR MULTIPLE FUTURES



3. GROUP RESULTS

FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
GROUP RESULTS						
Gross written premium	5,543	5,824	5,802	6,003	11,367	11,805
Gross earned premium	5,734	5,677	5,868	5,824	11,411	11,692
Reinsurance expense	(1,632)	(1,551)	(1,624)	(1,603)	(3,183)	(3,227)
Net earned premium	4,102	4,126	4,244	4,221	8,228	8,465
Net claims expense	(2,589)	(2,808)	(2,625)	(2,638)	(5,397)	(5,263)
Commission expense	(423)	(386)	(416)	(422)	(809)	(838)
Underwriting expense	(654)	(653)	(669)	(678)	(1,307)	(1,347)
Underwriting profit	436	279	534	483	715	1,017
Investment income on technical reserves	174	289	37	204	463	241
Insurance profit	610	568	571	687	1,178	1,258
Net corporate expense	(14)	(207)	(4)	(4)	(221)	(8)
Interest	(51)	(48)	(51)	(42)	(99)	(93)
Profit/(loss) from fee based business	10	(8)	(1)	(33)	2	(34)
Share of profit from associates	8	12	9	12	20	21
Investment income on shareholders' funds	38	59	105	144	97	249
Profit before income tax and amortisation	601	376	629	764	977	1,393
Income tax expense	(67)	(151)	(109)	(220)	(218)	(329)
Profit after income tax (before amortisation)	534	225	520	544	759	1,064
Non-controlling interests	(40)	(37)	(45)	(31)	(77)	(76)
Profit after income tax and non-controlling interests (before amortisation)	494	188	475	513	682	988
Amortisation and impairment	(28)	(29)	(29)	(30)	(57)	(59)
Profit attributable to IAG shareholders	466	159	446	483	625	929
Insurance Ratios						
Loss ratio	63.1%	68.1%	61.9%	62.5%	65.6%	62.2%
Immunised loss ratio	62.7%	65.4%	63.9%	61.6%	64.0%	62.8%
Expense ratio	26.2%	25.2%	25.6%	26.1%	25.7%	25.8%
Commission ratio	10.3%	9.4%	9.8%	10.0%	9.8%	9.9%
Administration ratio	15.9%	15.8%	15.8%	16.1%	15.9%	15.9%
Combined ratio	89.3%	93.3%	87.5%	88.6%	91.3%	88.0%
Immunised combined ratio	88.9%	90.6%	89.5%	87.7%	89.7%	88.6%
Reported insurance margin	14.9%	13.8%	13.5%	16.3%	14.3%	14.9%
Underlying insurance margin	14.2%	13.7%	12.6%	11.2%	14.0%	11.9%
Key Financial Metrics (Total Operations)						
Reported ROE (average equity) (% pa)	13.6%	4.7%	13.7%	14.9%	9.3%	14.3%
Cash ROE (average equity) (% pa)	14.7%	10.8%	14.8%	15.8%	13.0%	15.2%
Basic EPS (cents)	19.25	6.55	18.61	20.45	25.79	39.03
Diluted EPS (cents)	18.64	6.55	17.92	19.70	25.34	37.72
Cash EPS (cents)	20.81	14.97	19.98	21.64	35.78	41.60
DPS (cents)	13.00	13.00	13.00	20.00	26.00	33.00
Special DPS (cents)	10.00	n/a	n/a	n/a	10.00	n/a
Probability of adequacy	90%	90%	90%	90%	90%	90%
CET1 multiple	1.23	1.06	1.09	1.09	1.06	1.09

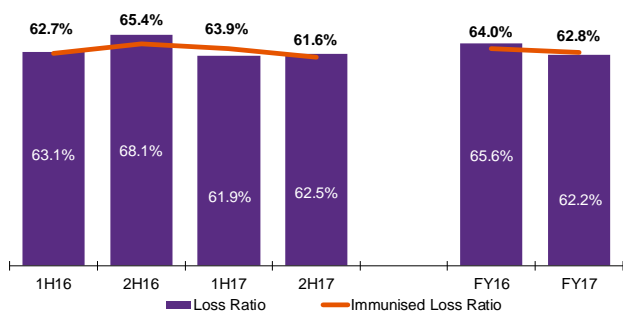
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A\$	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY16	FY17	FY16	FY17
New Zealand dollar	1.0451	1.0488	1.0875	1.0582
Thai baht	26.1575	26.0485	25.7732	26.3089
Malaysian ringgit	3.0011	3.2964	3.0077	3.2268
Indian rupee	50.3018	49.6278	48.1928	50.0751

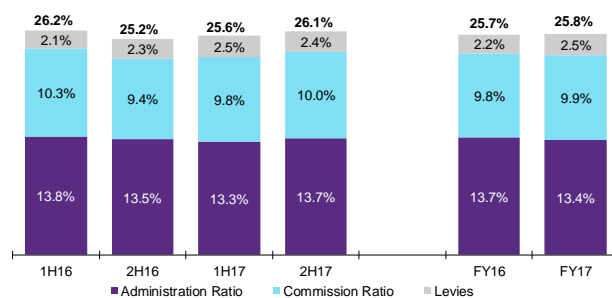
3. GROUP RESULTS

INSURANCE RATIOS

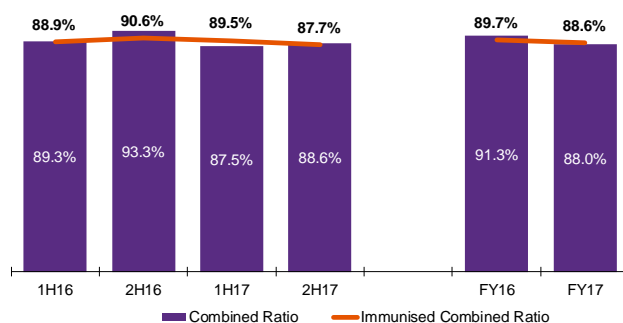
LOSS RATIO



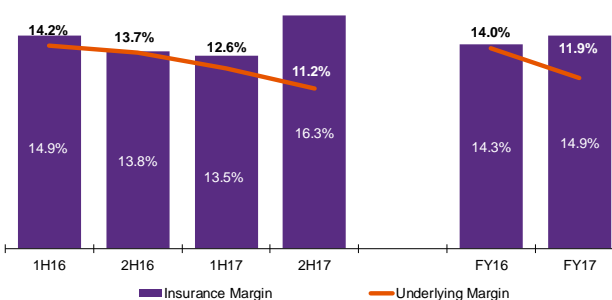
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



PREMIUMS

GWP grew by 3.9% in FY17, compared to FY16, with like-for-like growth well in excess of 4% for the full year. Total GWP of \$11,805m included:

- Solid short tail personal lines GWP growth across Australia and New Zealand and throughout the year, largely rate-driven in nature and countering claims inflation, particularly in motor;
- Double digit growth in long tail CTP GWP, most of which was derived from the initial contribution from participation in the South Australian market; and
- Relatively flat commercial lines GWP, in both Australia and New Zealand. After allowance for the Swann Insurance car dealership divestment, rate-driven like-for-like growth in excess of 4% was achieved in Australia. New Zealand saw a noticeable improvement in rates in 2H17 to counter a weaker opening half.

Like-for-like GWP growth of over 4% in FY17

There was a skew to the front half of FY17 within Australian GWP, arising from the originally intended abolition of ESL in NSW from 1 July 2017. This saw an approximately \$34m increment from higher collection of ESL in 1H17, which was more than offset by a reduction of \$53m in 2H17, against respective comparable periods. The NSW government has deferred the abolition of ESL, which represented around \$220m of GWP in FY17.

Foreign exchange translation added approximately 50bps to the total GWP growth outcome. This comprised a favourable effect in New Zealand, slightly offset by an adverse translation movement in Asia.

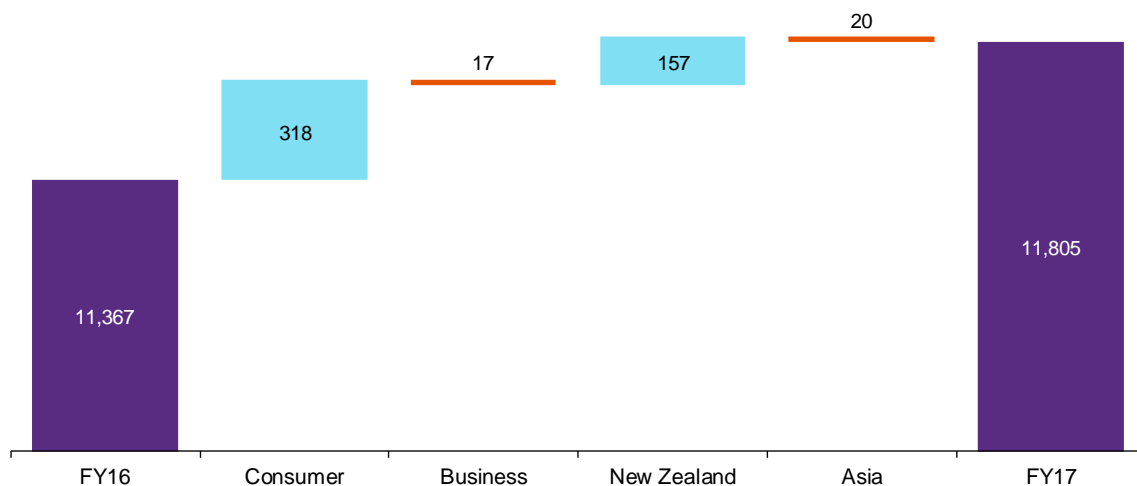
Underlying GWP growth was close to 4% in 1H17, rising to nearly 5% in 2H17. This allows for the Swann divestment, South Australian CTP, ESL and foreign exchange effects.

3. GROUP RESULTS

Comparing FY17 GWP with FY16 on a divisional basis:

- The **Australia Division** reported GWP growth of 3.4%, to \$9,081m. Within this:
 - **Consumer** grew its GWP by 5.5%, to \$6,119m, with growth derived from rate increases to counter claim inflation issues in motor, higher average sums insured in home, and a greater than 10% advance from CTP, most of which was represented by an initial \$73m contribution from entry into the South Australian market; and
 - **Business** reported near-flat GWP of \$2,962m, despite divestment of the Swann Insurance car dealership business which reduced GWP by approximately \$130m. Like-for-like GWP increased by over 4%, embracing steadily growing average rate increase momentum across intermediated business and higher than expected retention levels which were consistent with the prior year;
- **New Zealand** GWP increased by 7.2%, to \$2,339m, assisted by a favourable exchange rate movement. Local currency GWP grew by 4.3%, with strong growth in personal lines from a mix of rate and volume and led by private motor, and more modest growth from commercial lines which saw an improvement in rates in 2H17; and
- In **Asia**, consolidated GWP declined by 5.2%, to \$366m, reflecting intensified competition in the Thai motor market and a planned reduction in commercial exposures, accentuated by an adverse foreign exchange translation effect. On a proportional basis, like-for-like GWP was slightly lower, with continued strong growth in India offset by reduced GWP in Thailand and Malaysia.

GWP – FY17 VS. FY16 (A\$M)



INSURANCE MARGIN

IAG's underlying insurance margin was 11.9% in FY17, compared to 14.0% in FY16. This was lower than expected, owing to:

- Higher than anticipated claims inflation across the year in short tail motor in both Australia and New Zealand and driven by a combination of factors, partially mitigated by increased rates; and
- Increased large commercial claim incidence, which was at a particularly elevated level in Australian property in 2H17.

Motor claims inflation and commercial large losses reduced underlying margin below expected level

3. GROUP RESULTS

The lower underlying margin outcome also incorporated the following ingredients:

- An adverse impact of 70bps from an \$80m (13%) increase in natural perils allowance to \$680m, representing 8.0% of NEP (FY16: \$600m, 7.3% of NEP);
- The cumulative earned-through effect of pre-FY17 rate reductions and volume loss in commercial lines, notably in 1H17;
- A slight drag from Consumer’s Satellite business, which has delivered strong growth but operates at a lower level of profitability;
- A near-\$20m adverse movement in contribution from consolidated Asian operations (Thailand, Vietnam and Indonesia);
- A small net cost from IAG’s optimisation program, of approximately \$12m, which was heavily skewed to the second half of the year; and
- Lower investment income following completion of the asbestos reinsurance arrangement in 2H16.

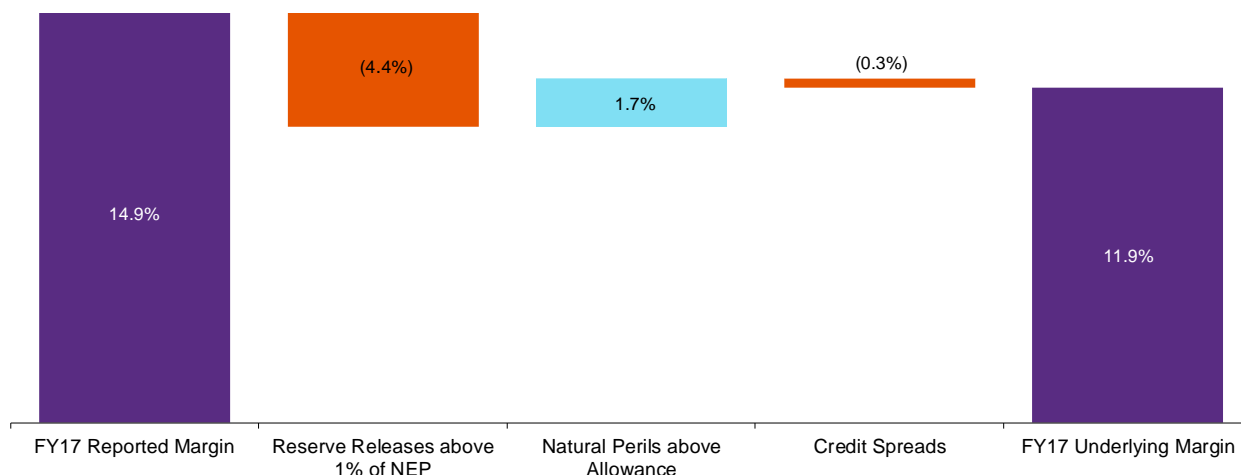
70bps adverse impact on underlying margin from higher perils allowance

A countervailing factor was the greater than \$40m reduction in non-quota share reinsurance expense, reflecting lower rates and the full effect of lower reinsurance requirements in the wake of the quota share agreement with Berkshire Hathaway.

IAG’s underlying margin is its 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.

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



The Group’s reported FY17 insurance profit of \$1,258m (FY16: \$1,178m) equated to a margin of 14.9%, which was slightly higher than FY16 (14.3%). This contained a net positive contribution of over \$140m from the combined effect of:

- A \$250m increase in prior period reserve releases to \$457m;
- A greater than \$160m increase in net natural peril claim costs, to \$822m; and
- A favourable movement in credit spread impacts of \$57m, with a positive impact of \$20m from the narrowing of spreads in FY17 contrasting with a negative effect of \$37m in FY16 as spreads widened.

Higher reported margin of 14.9%, including increased reserve releases offset by adverse perils outcome

3. GROUP RESULTS

Individual divisional insurance margin outcomes in FY17 were:

- A lower underlying margin of 11.5% from the **Australia Division**, alongside a higher reported margin of 17.5%, which comprised:
 - A strong, but reduced, underlying margin of 13.9% from **Consumer**, reflecting short tail motor claim pressures and a slight drag from the higher growth but lower profitability Satellite operation. A higher reported margin of 21.8% was driven by an increase in prior period reserve releases; and
 - A lower underlying margin of 6.9% from **Business**, which experienced an elevated level of large claim losses on its property portfolio across the year, and most notably in 2H17. The division's reported margin of 9.2% (FY16: 10.0%) benefited from higher prior period reserve releases equivalent to 4.2% of NEP;
- A strong underlying margin of 14.8% from **New Zealand**, with a lower outcome than FY16 (16.9%) driven by increased attritional and large claim costs. The division's reported margin of 7.6% included a significantly adverse net natural peril cost experience, comprising \$120m from the Kaikoura earthquake in November 2016 and the cost of a sequence of events in 2H17; and
- An insurance loss from **Asia** of \$12m, representing a negative turnaround of \$19m compared to FY16. This weaker result was driven by intensified price competition and flood-related peril costs in Thailand.

Strong, but lower, underlying margins from Consumer and New Zealand – impact of claim cost pressures

	1H16	2H16	1H17	2H17	FY16	FY17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	60	147	155	302	207	457
Natural perils	(278)	(381)	(420)	(402)	(659)	(822)
Natural peril allowance	300	300	340	340	600	680
Credit spreads	(15)	(22)	5	15	(37)	20
Reserve releases	1.5%	3.5%	3.7%	7.2%	2.5%	5.4%
Natural perils	(6.7%)	(9.2%)	(9.9%)	(9.5%)	(8.0%)	(9.7%)
Natural peril allowance	7.3%	7.3%	8.0%	8.1%	7.3%	8.0%
Credit spreads	(0.4%)	(0.5%)	0.1%	0.4%	(0.5%)	0.3%

REINSURANCE EXPENSE

The total reinsurance expense includes the cost of all covers purchased by IAG, including catastrophe, casualty, facultative and proportional protection.

The FY17 expense of \$3,227m includes \$2,598m from quota share-related effects, which is a 3.6% increase over FY16 (\$2,508m) and reflects gross earned premium (GEP) growth.

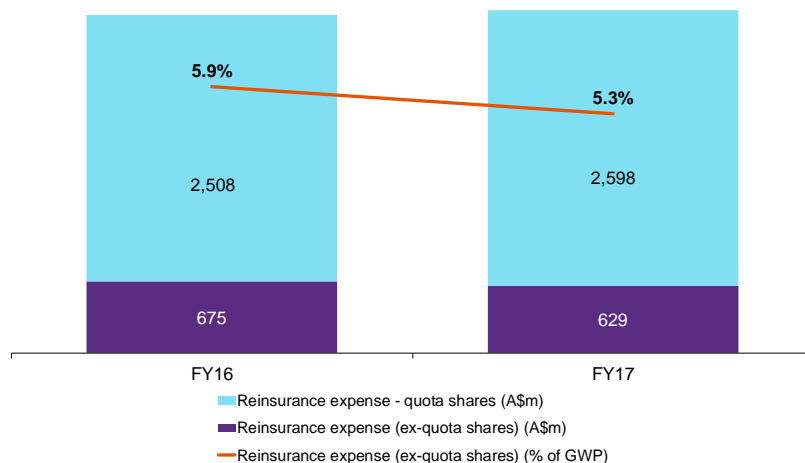
The non-quota share reinsurance expense reduced by 6.8% compared to FY16, to \$629m or 5.3% of GWP (FY16: 5.9%). This was driven by:

- Reduced capacity required to be purchased in calendar 2016, following inception of the quota share agreement with Berkshire Hathaway; and
- Lower catastrophe reinsurance costs, stemming from the favourable calendar 2016 and 2017 renewals.

Lower non-quota share reinsurance expense incorporates favourable catastrophe renewals in 2016 and 2017

3. GROUP RESULTS

REINSURANCE EXPENSE



CLAIMS

The lower FY17 immunised loss ratio of 62.8% (FY16: 64.0%) reflected the net effect of:

- Significantly higher prior period reserve releases;
- Higher net natural peril claim costs, well in excess of allowance;
- Short tail claims inflation, particularly in motor in both Australia and New Zealand, which was countered by stronger premium rate increases than those originally envisaged; and
- Elevated commercial large loss experience, notably in Australia.

The FY17 reported loss ratio of 62.2% was also lower than FY16 (65.6%). In addition to reserve release and peril movements, it contains a favourable risk free discount rate adjustment of over \$50m (after inclusion of foreign exchange effects), compared to an adverse impact of nearly \$130m in FY16.

IAG's underlying claims ratio (excluding reserve release, peril and discount rate effects) was similar to FY16. In addition to the short tail claims inflation and higher large loss incidence itemised above, this outcome included further supply chain and claims process efficiencies, lower frequency of small NSW CTP claims in 2H17 and improved experience in commercial long tail classes following tighter underwriting disciplines.

Reserve Releases

The FY17 net claims expense includes \$457m of prior period reserve releases, equivalent to 5.4% of NEP (FY16: 2.5%).

The higher level of prior period reserve releases, compared to FY16, reflects:

- Higher than originally expected releases from Australian long tail classes, following further favourable experience against underlying assumptions for claim size and inflation; and
- The absence of the NZ\$150m increase to risk margin in respect of the February 2011 Canterbury earthquake event, as recognised in 1H16.

Allowance has been made for potential remediation costs resulting from the past sale by a subsidiary company of add-on insurance through car and motorcycle dealers.

Lower loss ratio as increased reserve releases more than countered peril and other claim cost pressures

Higher reserve releases driven by Australian long tail classes, plus absence of earthquake risk margin increase

3. GROUP RESULTS

	1H16	2H16	1H17	2H17	FY16	FY17
RESERVE RELEASES	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	60	147	155	302	207	457
Impact on insurance margin	1.5%	3.5%	3.7%	7.2%	2.5%	5.4%

As embodied in its underlying margin definition, it remains IAG's belief that long term 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.

IAG has guided to a reserve release outcome of 2% of NEP in FY18, on the assumption that the presently particularly benign inflationary environment continues to prevail.

Natural Perils

The FY17 net claims expense included \$822m (FY16: \$659m) of losses from natural perils (net of reinsurance), compared to an allowance of \$680m. The net effect of natural perils (after allowance) was an unfavourable impact on the reported insurance margin of 1.7% (FY16: unfavourable impact of 0.7%).

Net natural peril claim costs \$142m above allowance

	1H16	2H16	1H17	2H17	FY16	FY17
NATURAL PERILS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Natural peril claim costs	(278)	(381)	(420)	(402)	(659)	(822)
Natural peril allowance	300	300	340	340	600	680
Impact on insurance profit	22	(81)	(80)	(62)	(59)	(142)
Impact on insurance margin	0.6%	(1.9%)	(1.9%)	(1.4%)	(0.7%)	(1.7%)

FY17 was a relatively active period for natural perils, with three events incurring an individual net cost in excess of \$100m:

- The Kaikoura earthquake in New Zealand in November 2016 (\$120m);
- The Northern Sydney hailstorm in February 2017 (\$138m); and
- Tropical Cyclone Debbie in March 2017 (\$154m).

FY17 NATURAL PERIL COSTS BY EVENT	A\$m
South Australia rain, wind and storms (September 2016)	21
Melbourne wind storm (October 2016)	15
Adelaide hail storm and New Zealand storms (November 2016)	96
Kaikoura earthquake (November 2016)*	120
Rain storms - WA, NT, SA and Victoria (December 2016)*	20
Northern Sydney hail storm (February 2017)	138
Australian east coast low and upper north New Zealand floods (March 2017)	24
East coast low - NSW and Queensland (March 2017)	21
Tropical Cyclone Debbie (March 2017)*	154
Other events (<\$15m)	309
FY17 perils cover (\$96m xs \$680m)	(96)
Total	822

* Net of reinsurance recoveries

The year benefited from over \$140m of protection (post-quota share) from the combined calendar 2016 and 2017 catastrophe reinsurance aggregate covers.

3. GROUP RESULTS

The FY17 net natural peril cost was also reduced by full utilisation of the FY17-specific reinsurance cover that provided \$96m of protection immediately above \$680m.

Comparable peril experience in FY16 saw a single event above \$100m, being the east coast low in June 2016. It also comprised a sequence of medium-sized events, six of which were restricted to a net cost of \$20m each through activation of IAG's calendar 2015 aggregate cover, which reduced total claim costs by approximately \$130m.

Cumulative attritional events (below \$15m in size) in FY17 were about 20% higher than FY16 (\$257m).

EXPENSES

Total operating expenses (commission and underwriting) were \$2,185m, compared to \$2,116m in FY16.

On a pre-quota share basis, gross underwriting expenses increased by 0.7% to \$1,835m, and were 2.3% lower after allowing for:

- A higher earned effect of ESL (matching the associated NEP impact);
- Net optimisation costs, of which roughly two-thirds are included in operating costs; and
- Foreign exchange translation effects, principally in respect of New Zealand.

Gross underwriting expenses reconcile to the equivalent ~\$1.6bn subject to IAG's optimisation program after exclusion of levies, which exceeded \$250m in FY17.

The reported expense ratio was fractionally higher at 25.8% (FY16: 25.7%), while on an ex-levies basis the administration ratio declined to 13.4% (FY16: 13.7%).

IAG's commission ratio of 9.9% was slightly higher than FY16 (9.8%), influenced by business mix changes. Underlying commission rates were broadly unchanged.

Lower like-for-like underwriting expenses, pre-quota share effects

	1H16	2H16	1H17	2H17	FY16	FY17
EXPENSES	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross commission expense	531	508	526	539	1,039	1,065
Gross underwriting expense	919	903	912	923	1,822	1,835
Total gross expenses	1,450	1,411	1,438	1,462	2,861	2,900
Reinsurance commission revenue	(373)	(372)	(353)	(362)	(745)	(715)
Total net expenses	1,077	1,039	1,085	1,100	2,116	2,185

OPTIMISATION PROGRAM

FY17 was the first full year of activity under IAG's optimisation program, with a small net negative of approximately \$12m absorbed in the insurance profit, as initial benefits were outweighed by related costs. This was heavily skewed to the second half of the year, as activity gathered pace. The majority of this impact attaches to underwriting expenses, with smaller portions attributable to the claims expense and fee income.

It remains IAG's target to reduce total controllable expenditure by at least 10%, or \$250m pre-tax. IAG expects to reach that run rate as it exits FY19, with expected short term earnings impacts unchanged and comprising:

- A broadly neutral effect in FY18; and
- A greater than \$100m pre-tax net benefit in FY19.

Optimisation program on track – net negative of ~\$12m incurred in FY17

3. GROUP RESULTS

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY17 was \$241m, compared to \$463m in FY16. This outcome includes:

- An unrealised capital loss of nearly \$50m, compared with an equivalent gain of over \$150m in FY16;
- A positive contribution of \$20m from the narrowing of credit spreads (FY16: negative impact of \$37m); and
- A minor adverse foreign exchange impact (FY16: \$23m adverse), 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.

The portfolio is aligned with the average weighted duration of the Group's claims liability, which is now around two years.

NET CORPORATE EXPENSE

A pre-tax net corporate expense of \$8m was recognised in FY17. This includes the loss on divestment of the Swann Insurance car dealership business.

The post-tax impact of corporate expenses on reported earnings was approximately \$2m, which has been added back for the calculation of cash earnings when determining the dividend.

A net corporate expense of \$221m in FY16 included nearly \$200m of non-cash accelerated amortisation and impairment of capitalised software assets following a detailed review.

PROFIT FROM FEE BASED BUSINESS

Fee based business includes Business' agency role for the NSW and Victorian workers' compensation schemes, as well as Ambiata, the data analytics business within Customer Labs.

Fee based business produced a loss of \$34m, compared to a profit of \$2m in FY16. The significant deterioration in profitability predominantly reflects the move into loss by Business' workers' compensation-related activities, including:

- Provision for anticipated redundancy payments and fixed technology recharges following the decision to withdraw from the NSW scheme by 31 December 2017; and
- Lower than expected returns from performance and incentive fees in both the NSW and Victorian schemes, exacerbated by the loss of the largest employer in the Victorian scheme and unfavourable changes to the NSW remuneration model.

Modest profitability is expected from fee based business in future periods.

SHARE OF ASSOCIATES

IAG's Asian interests represent the vast majority of the share of earnings from associates, and in FY17 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 \$22m (FY16: \$19m), after allocation of \$20m of regional support and development costs. IAG's overall share of associates was a profit of \$21m (FY16: \$20m).

Slightly higher average yield on technical reserves

Small loss on sale of Swann business

Fee based business loss includes cost of withdrawal from NSW workers' compensation scheme

Share of associates largely derived from Asian interests

3. GROUP RESULTS

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of \$249m, a substantial increase on the profit of \$97m in FY16. This was driven by a stronger equity market performance, with the broader Australian index (S&P ASX200 Accumulation) delivering a return of 14.1% (FY16: 0.6%) and the MSCI World Total Return Index (AUD Hedged) 16.4% (FY16: -2.8%).

At 30 June 2017 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 47% (FY16: 48%).

TAX EXPENSE

IAG reported a tax expense of \$329m in FY17 (FY16: \$218m), representing an effective tax rate (pre-amortisation) of 23.6% (FY16: 22.3%).

The main reason for this lower than normal rate is the application of the concessional zero tax rate (previously 10%) to a greater proportion of reinsurance recoveries on the February 2011 Canterbury earthquake event by IAG's captive vehicle in Singapore, following a review by that country's revenue authorities. This was identified in 1H17.

The effective tax rate in 2H17 was 28.8%, which is expected to be more indicative of future periods.

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.

The tax rate in FY16 was also lower than normal, reflecting the net effect of:

- The favourable resolution of a tax audit associated with IAG's former UK operations;
- Further reinsurance recoveries relating to the September 2010 Canterbury earthquake event, as recognised by IAG's captive vehicle; and
- Withholding tax-related adjustments and the unwind of reinsurance effects stemming from an arrangement over asbestos-related risks.

NON-CONTROLLING INTERESTS

The \$76m non-controlling interests in IAG's profit compares to \$77m in FY16. The majority of this 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 Consumer. The IMA result was similar to FY16.

EARNINGS PER SHARE

Basic earnings per share (EPS) in FY17 was 39.03 cents, an increase of 51.3% compared to FY16. FY17 basic EPS was calculated on lower weighted average equity on issue of approximately 2,380m shares (excluding treasury shares). This follows completion of an off-market buyback in October 2016. On a diluted basis, EPS was 37.72 cents (FY16: 25.34cps).

Cash EPS was 41.60 cents, an increase of 16.3% compared to FY16.

Higher shareholders' funds income reflects stronger equity market performance

Lower than normal tax expense owing to revised rate applied to reinsurance recoveries in Singapore in 1H17

Non-controlling interests reflect similar IMA result

16% increase in cash EPS, to 41.60 cents

3. GROUP RESULTS

	Shares (m)
ORDINARY ISSUED CAPITAL	
Balance at the beginning of the financial year	2,431.4
Share buy-back - October 2016	(63.9)
Balance at the end of the financial year	2,367.5
Average weighted shares on issue	2,385.2
Less: Treasury shares held in trust	(5.6)
Average weighted shares on issue (excluding treasury shares)	2,379.6

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.

	FY17 A\$m
CASH EARNINGS	
Net profit after tax	929
Acquired intangible amortisation and impairment	59
Unusual items:	
- Corporate expenses	8
- Tax effect on corporate expenses	(6)
Cash earnings	990
Dividend payable	781
Cash payout ratio	78.9%

DIVIDEND

The Board has determined to pay a fully franked final dividend of 20.0 cents per ordinary share, bringing the full year dividend to 33.0 cents per ordinary share. This represents an increase of nearly 27% compared to the equivalent payment in FY16. A special dividend of 10.0 cents per share was also paid in respect of FY16.

The final dividend is payable on 9 October 2017 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 7 September 2017.

The full year dividend equates to a payout ratio of 78.9% of cash earnings in FY17. The Group's dividend policy is to pay out 60-80% of cash earnings on a full year basis.

As at 30 June 2017, and after allowance for payment of the final dividend, IAG's franking balance was \$115m, giving it the capacity to fully frank a further \$268m of distributions.

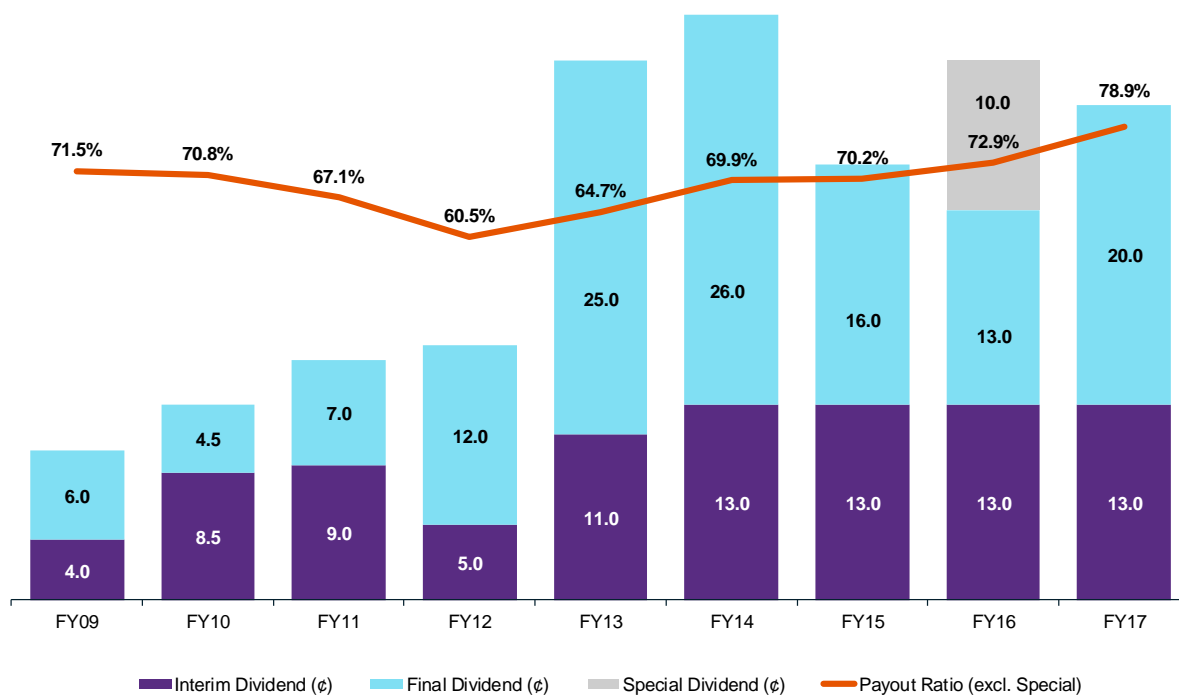
The dividend reinvestment plan (DRP) will operate for the final dividend for shareholders registered for the DRP as at 5pm on 8 September 2017. The issue price per share for the final dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. 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>

Higher full year ordinary dividend of 33 cents, representing 78.9% of cash earnings

3. GROUP RESULTS

DIVIDEND HISTORY – FY09-FY17



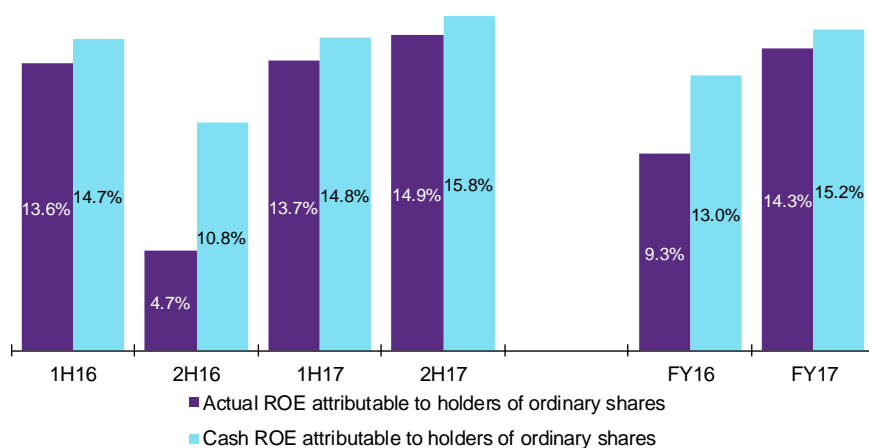
RETURN ON EQUITY

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.

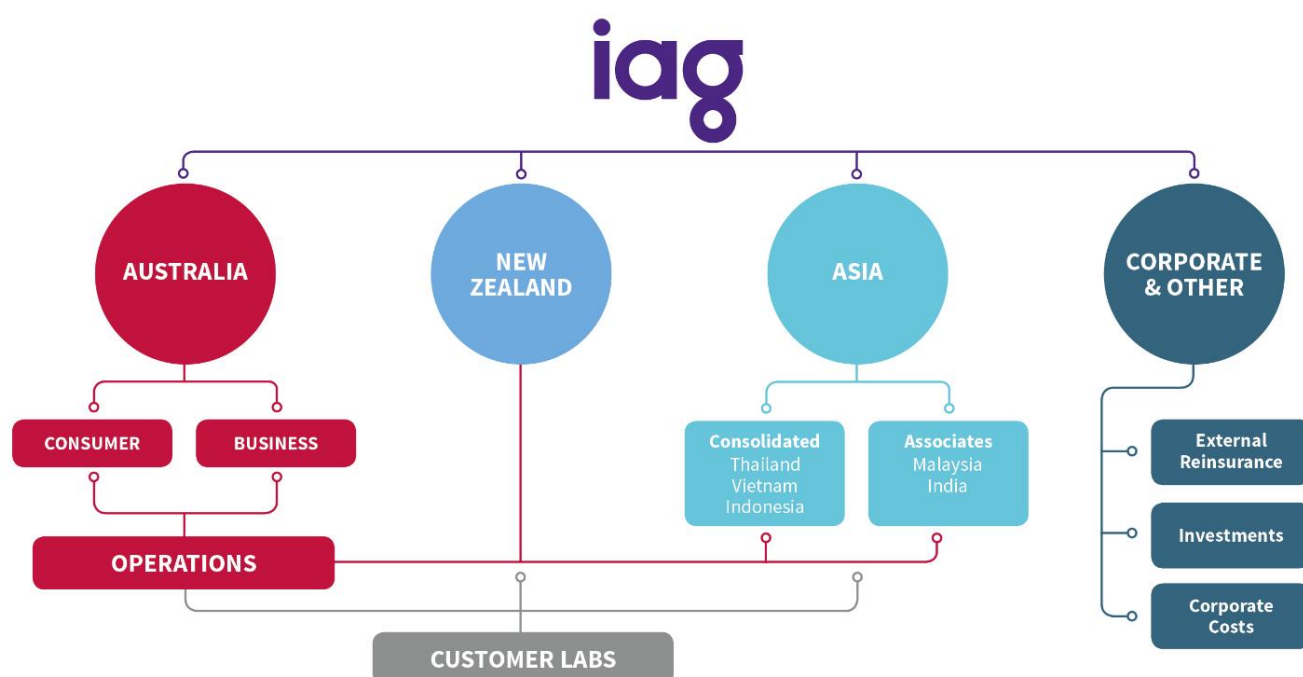
IAG’s current long term cost of capital approaches 10%, equating to a cash ROE target of approximately 15%. In FY17, IAG reported a cash ROE of 15.2% (FY16: 13.0%).

Cash ROE of 15.2%, in line with through-the-cycle target

RETURN ON EQUITY (ANNUALISED)



4. FY17 SEGMENTAL OVERVIEW



FY17 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A\$m	Consumer A\$m	Business A\$m	New Zealand A\$m	Asia A\$m	Corporate & Other A\$m	Total A\$m
Gross written premium	9,081	6,119	2,962	2,339	366	19	11,805
Gross earned premium	9,017	6,001	3,016	2,287	371	17	11,692
Reinsurance expense	(2,479)	(1,686)	(793)	(632)	(105)	(11)	(3,227)
Net earned premium	6,538	4,315	2,223	1,655	266	6	8,465
Net claims expense	(3,934)	(2,640)	(1,294)	(1,146)	(181)	(2)	(5,263)
Commission expense	(582)	(241)	(341)	(189)	(64)	(3)	(838)
Underwriting expense	(1,065)	(618)	(447)	(240)	(42)	-	(1,347)
Underwriting profit	957	816	141	80	(21)	1	1,017
Investment income on technical reserves	188	125	63	45	9	(1)	241
Insurance profit	1,145	941	204	125	(12)	-	1,258
Profit/(loss) from fee based business	(28)	-	(28)	-	-	(6)	(34)
Share of profit/(loss) from associates	(1)	-	(1)	-	22	-	21
Total divisional results	1,116	941	175	125	10	(6)	1,245

Insurance Ratios

Loss ratio	60.2%	61.2%	58.2%	69.2%	68.0%		62.2%
Expense ratio	25.2%	19.9%	35.4%	25.9%	39.9%		25.8%
Commission ratio	8.9%	5.6%	15.3%	11.4%	24.1%		9.9%
Administration ratio	16.3%	14.3%	20.1%	14.5%	15.8%		15.9%
Combined ratio	85.4%	81.1%	93.6%	95.1%	107.9%		88.0%
Insurance margin	17.5%	21.8%	9.2%	7.6%	(4.5%)		14.9%
Underlying insurance margin	11.5%	13.9%	6.9%	14.8%			11.9%

5. AUSTRALIA

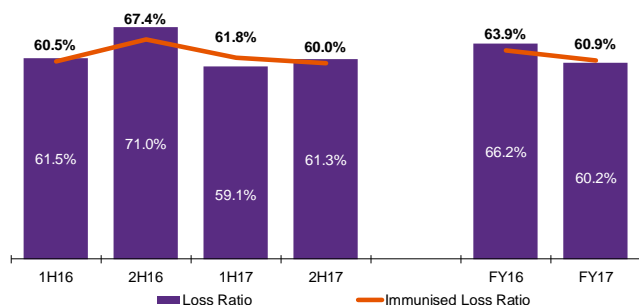
FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
Gross written premium	4,267	4,513	4,483	4,598	8,780	9,081
Gross earned premium	4,431	4,377	4,530	4,487	8,808	9,017
Reinsurance expense	(1,231)	(1,210)	(1,254)	(1,225)	(2,441)	(2,479)
Net earned premium	3,200	3,167	3,276	3,262	6,367	6,538
Net claims expense	(1,969)	(2,249)	(1,936)	(1,998)	(4,218)	(3,934)
Commission expense	(290)	(268)	(287)	(295)	(558)	(582)
Underwriting expense	(502)	(504)	(530)	(535)	(1,006)	(1,065)
Underwriting profit	439	146	523	434	585	957
Investment income on technical reserves	156	294	19	169	450	188
Insurance profit	595	440	542	603	1,035	1,145
Profit/(loss) from fee based business	11	(7)	2	(30)	4	(28)
Share of profit/(loss) from associates	1	-	-	(1)	1	(1)
Total divisional result	607	433	544	572	1,040	1,116

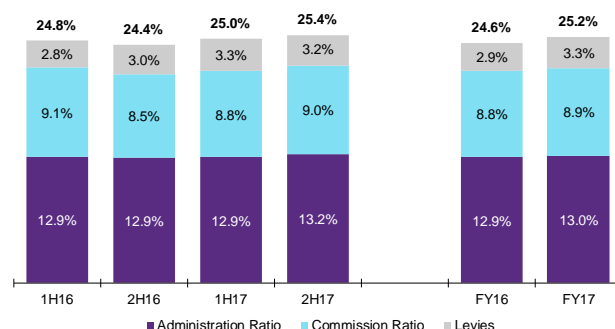
	1H16	2H16	1H17	2H17	FY16	FY17
Insurance Ratios						
Loss ratio	61.5%	71.0%	59.1%	61.3%	66.2%	60.2%
Immunised loss ratio	60.5%	67.4%	61.8%	60.0%	63.9%	60.9%
Expense ratio	24.8%	24.4%	25.0%	25.4%	24.6%	25.2%
Commission ratio	9.1%	8.5%	8.8%	9.0%	8.8%	8.9%
Administration ratio	15.7%	15.9%	16.2%	16.4%	15.8%	16.3%
Combined ratio	86.3%	95.4%	84.1%	86.7%	90.8%	85.4%
Immunised combined ratio	85.3%	91.8%	86.8%	85.4%	88.5%	86.1%
Insurance margin	18.6%	13.9%	16.5%	18.5%	16.3%	17.5%
Underlying insurance margin	13.7%	13.7%	12.2%	10.8%	13.7%	11.5%

INSURANCE RATIOS

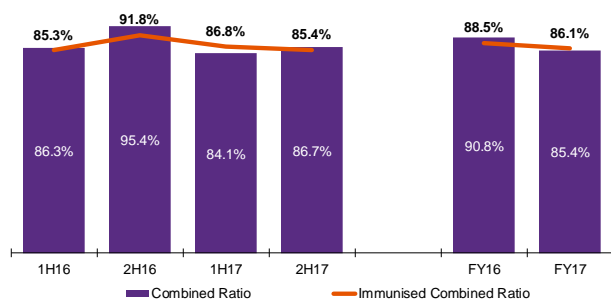
LOSS RATIO



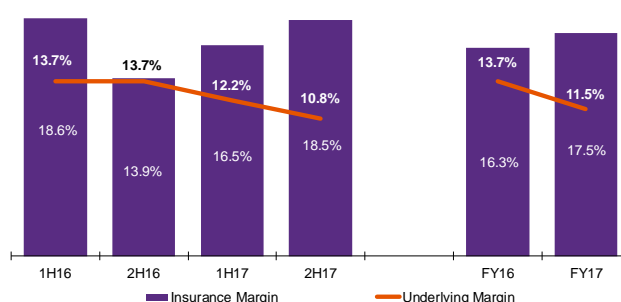
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



5. AUSTRALIA

AUSTRALIA DIVISION

On 19 July 2017, IAG announced the creation of a single Australian division, with immediate effect. The Australia Division simplifies IAG's operating model by bringing together the former Consumer, Business, Operations and Satellite divisions. It centralises accountability for the customer, product, distribution and operations functions for IAG's Australian brands, which include NRMA Insurance, CGU, WFI, SGIO and SGIC.

While presenting combined financial results for the Australia Division, it is IAG's present intention to continue providing segmental analysis for Consumer (including Satellite) and Business, consistent with past practice.

MARKET REGULATION AND REFORM

A number of legislative reviews and inquiries are presently underway, with potential implications for IAG's Australian operations. They include:

- The Senate Economics References Committee Inquiry in relation to the cost of home, strata and car insurance cover over the past decade in comparison to wage growth over the same period; competition and transparency in Australia's home, strata and car insurance industries; and insurance comparison services. Following submissions in February 2017, a number of recommendations were made in the report published in August 2017 which the Australian Government is now considering;
- The Senate Economics References Committee Inquiry into the regulatory framework for the protection of consumers, including small businesses, in the banking and financial services sector. Following submissions in March 2017, public hearings will be held in the second half of 2017 with a report due by 22 March 2018;
- 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. The Australian Government released its response to this report on 20 October 2015. Implementation of a number of the recommendations will be subject to detailed consultation with stakeholders, in particular those relating to product intervention powers and strengthened product issuer and distributor accountability. The Treasury released a Proposals Paper in December 2016. Submissions were due on 15 March 2017, and the Government is expected to respond in the second half of 2017;
- The Australian Government's response to the Competition Policy Review was released in November 2015. A Discussion Paper was published and the issue of an 'effects test' was referred for further consultation. The Government announced in March 2016 it would amend Section 46 of the Competition and Consumer Act: the misuse of market power provision. The legislation was introduced into Parliament in December 2016 and referred to a Senate Inquiry. The Senate report was tabled on 16 February 2017 and debate is expected to resume in August 2017;
- In October 2016 the Australian Government announced a review of the enforcement regime of the Australian Securities and Investments Commission (ASIC). A series of Issues Papers has been released by Treasury over April to July 2017, with submissions due over May to August 2017 and a report due to Government in late 2017;
- The Australian Government is conducting a Review of the Australian Consumer Law, including the Unfair Contract Terms protections. A Final Report was due by March 2017 and will be considered at the Ministerial Meeting in August 2017. Treasury is expected to consult further in September 2017;

Single Australia Division created in July 2017

The Australian insurance industry remains subject to a number of legislative reviews

5. AUSTRALIA

- 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 canvassed a number of issues to be considered in assessing the feasibility of the options to lower premiums. These included: 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 late 2017;
- On 25 May 2017 the Australian Government asked the Australian Competition and Consumer Commission (ACCC) to conduct an Inquiry into the supply of home, contents and strata insurance in Northern Australia. An Issues Paper will be released in the second half of 2017. The ACCC must submit interim reports to the Treasurer by 30 November 2018 and 30 November 2019. The inquiry is to be completed and a final report submitted to the Treasurer by 30 November 2020;
- The Productivity Commission is currently conducting an Inquiry into Data Availability & Use. A Draft Report was issued in November 2016 and, following submissions, a Final Report was released in May 2017. The Government has established a cross-agency taskforce within the Department of Prime Minister and Cabinet to consider the recommendations;
- Submissions to the Senate Economics Reference Committee Inquiry into non-conforming building products closed on 18 January 2017. Additional public hearings and submissions occurred in July 2017 with a Final Report to be released in October 2017;
- The Senate Inquiry into Impacts of Climate Change on housing, building and infrastructure was announced on 9 May 2017. Submissions are due by 16 August 2017 and a Final Report on 23 November 2017;
- A Government Review of the financial system's dispute resolution and complaints framework is looking at the merits and potential design of a compensation scheme of last resort. An Issues Paper was released in May 2017, submissions were due June 2017 and a Government response is expected in late 2017;
- The NSW Government announced its proposal for CTP scheme reform in June 2016, which included the implementation of a hybrid no-fault scheme that introduces defined benefits for low severity injuries, retains access to common law for the most seriously injured and, for the first time, extends limited protection to at-fault road users. The reform deals 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 legislation passed in March 2017 and takes effect in December 2017; and
- On 30 May 2017 the NSW Government announced it would defer the introduction of the Fire and Emergency Services Levy. The deferral of the reform (planned for 1 July 2017) will impact the removal of ESL from insurance premiums and the role of the Insurance Monitor. On 22 June 2017, the NSW Legislative Council Inquiry into the Fire and Emergency Services Levy was announced, with submissions due 26 November 2017.

6. CONSUMER

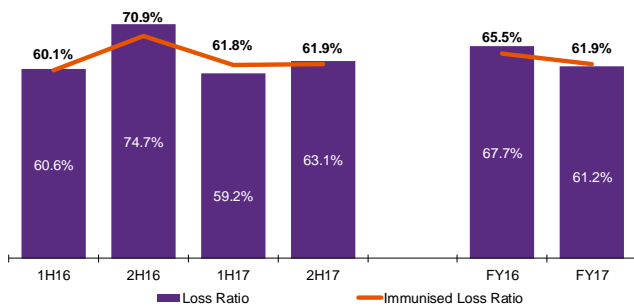
FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
Gross written premium	2,848	2,953	3,060	3,059	5,801	6,119
Gross earned premium	2,834	2,852	2,980	3,021	5,686	6,001
Reinsurance expense	(818)	(804)	(837)	(849)	(1,622)	(1,686)
Net earned premium	2,016	2,048	2,143	2,172	4,064	4,315
Net claims expense	(1,221)	(1,530)	(1,269)	(1,371)	(2,751)	(2,640)
Commission expense	(105)	(106)	(114)	(127)	(211)	(241)
Underwriting expense	(276)	(282)	(313)	(305)	(558)	(618)
Underwriting profit	414	130	447	369	544	816
Investment income on technical reserves	81	180	14	111	261	125
Insurance profit	495	310	461	480	805	941

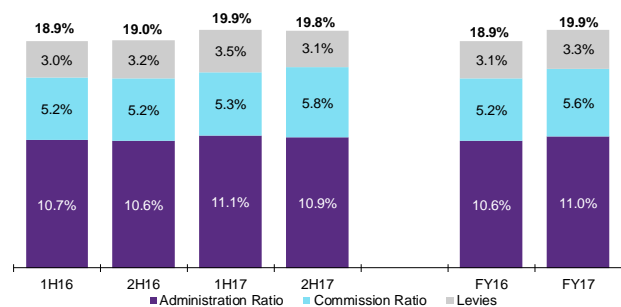
Insurance Ratios	1H16	2H16	1H17	2H17	FY16	FY17
Loss ratio	60.6%	74.7%	59.2%	63.1%	67.7%	61.2%
Immunised loss ratio	60.1%	70.9%	61.8%	61.9%	65.5%	61.9%
Expense ratio	18.9%	19.0%	19.9%	19.8%	18.9%	19.9%
Commission ratio	5.2%	5.2%	5.3%	5.8%	5.2%	5.6%
Administration ratio	13.7%	13.8%	14.6%	14.0%	13.7%	14.3%
Combined ratio	79.5%	93.7%	79.1%	82.9%	86.6%	81.1%
Immunised combined ratio	79.0%	89.9%	81.7%	81.7%	84.4%	81.8%
Insurance margin	24.6%	15.1%	21.5%	22.1%	19.8%	21.8%
Underlying insurance margin	15.5%	16.5%	14.1%	13.7%	16.0%	13.9%

INSURANCE RATIOS

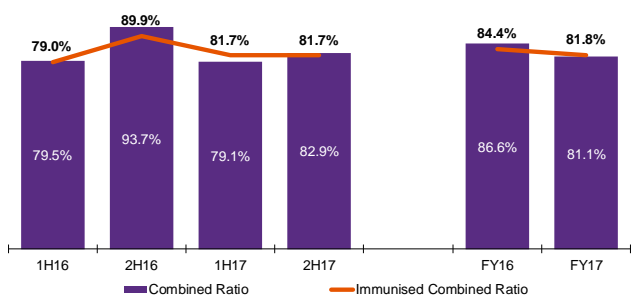
LOSS RATIO



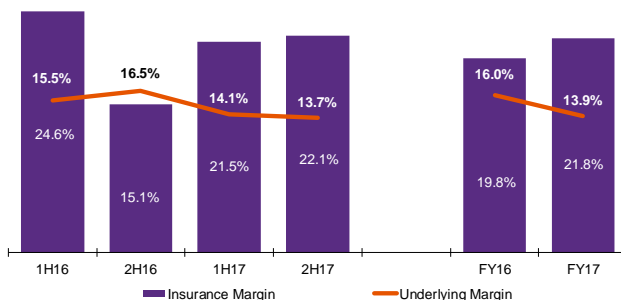
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

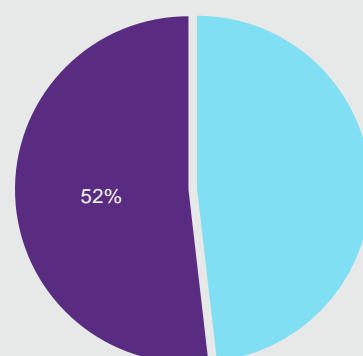


6. CONSUMER

EXECUTIVE SUMMARY

- Consumer comprises Australian personal lines insurance products, including CTP
- It includes direct and intermediated (affinity and financial institution partnerships and broker and agent) channels
- Strong FY17 GWP growth of 5.5%, driven by short tail rate increases to address claims inflation and entry into SA CTP
- Strong FY17 profitability despite ongoing claim cost pressures in motor – overall underlying margin of 13.9%
- Strong growth from Satellite, causing slight drag on margin
- Reported margin of 21.8% boosted by significant CTP-related reserve releases
- NSW CTP reform commencing 1 December 2017
- Relatively flat FY18 GWP growth expected on lower NSW CTP prices, and lower reported margin on reduced reserve releases

Consumer - % Group GWP



PREMIUMS

Consumer is a market leader in Australian personal lines, offering a full range of customer value propositions to accommodate changing customer behaviours.

Consumer's collective brands continued to generate a sound top line performance in a dynamic and competitive environment. GWP increased by 5.5% to \$6,119m in FY17 (FY16: \$5,801m), and included growth in both short tail home and motor lines, as well as long tail CTP.

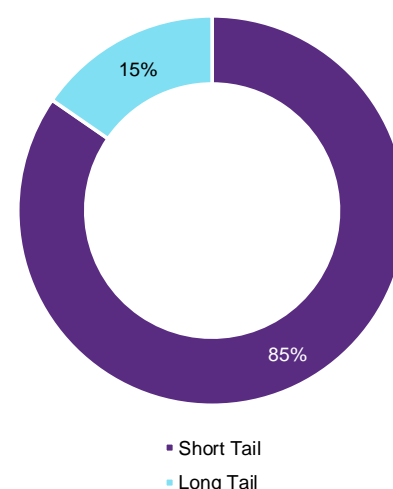
Short tail personal lines represented nearly 85% of Consumer's GWP, and grew by 4.7%. Excluding the effect of ESL, which inflated 1H17 GWP by \$24m and had a larger negative effect in 2H17, short tail GWP demonstrated similar growth momentum across FY17.

Short tail GWP growth in FY17 was predominantly rate-driven, largely in response to higher than originally expected claims inflation in motor. This was supplemented by modest volume gain in motor, while home volumes contracted marginally, reflecting lower new business.

Within Satellite, Coles Insurance and IAL (via the intermediated channel in partnership with Steadfast) delivered stronger growth than Consumer as a whole, albeit off considerably smaller bases than those of the major brands. Tougher conditions were experienced by the SGIO and SGIC brands in Western Australia and South Australia respectively, where GWP was flat.

GWP increase of 5.5%, reflecting short tail rate growth and SA CTP entry

FY17 GWP - TAIL



GWP	1H16	2H16	1H17	2H17	FY16	FY17	GWP Growth FY17 vs FY16
Motor	1,283	1,357	1,354	1,435	2,640	2,789	5.6%
Home	1,054	1,069	1,139	1,066	2,123	2,205	3.9%
Niche & Other	92	91	96	87	183	183	-
Total Short Tail	2,429	2,517	2,589	2,588	4,946	5,177	4.7%
Long Tail	419	436	471	471	855	942	10.2%
Total GWP	2,848	2,953	3,060	3,059	5,801	6,119	5.5%

6. CONSUMER

GWP attributable to collection of ESL in NSW was \$154m in FY17, compared to \$167m in FY16. A corresponding cost is included in the underwriting expense line, after allowance for the 20% quota share and earned effects. At the end of May 2017, the NSW government determined to defer the previously intended abolition of ESL.

Motor GWP increased by 5.6% compared to FY16, with growth levels broadly consistent across the financial year. The majority of this was rate-driven, as higher prices were implemented to counter increased claim costs. This was augmented by modest volume growth, notably in NSW and Victoria.

Home GWP rose by 3.9% compared to FY16, with slightly lower growth achieved in 2H17 after allowance for the phased collection of ESL in anticipation of its originally intended abolition from 1 July 2017. Home GWP benefited from slightly higher average sums insured, but saw marginally lower volumes. In particular, new business volumes were lower in NSW as a result of reduced shopping behaviour in that market.

Due and paid renewal levels for both motor and home remained high, and were reasonably stable compared to FY16. Slight improvements were registered in most portfolios.

Business volumes sourced from financial partners were flat, with GWP growth of close to 3% primarily attributable to rate increases. The composition of the book was stable, with no significant account gains or losses during the year.

GWP from niche and other short tail lines, comprising boat, caravan, classic car, credit card, warranty and other specialty products, was flat compared to FY16. Lower GWP in 2H17 reflected a significant price reduction in consumer credit insurance as a result of a product restructure, as well as the exit from mobile insurance.

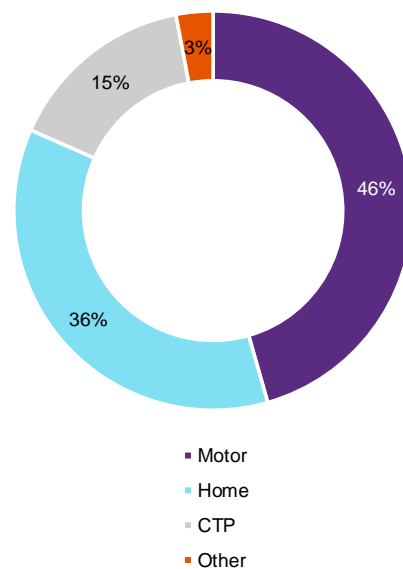
Long tail (CTP) GWP increased by 10.2% compared to FY16, comprising:

- An initial contribution from South Australia, where IAG was allocated 20% of the privatised CTP scheme from 1 July 2016 when a three-year transition arrangement was implemented. Related GWP in FY17 was \$73m;
- An increase in GWP from NSW of nearly 3%, where cumulative rate increases to address claim inflation issues outweighed lower volume. Three 2% rate increases were implemented in 1H17, on each of 1 July, 1 September and 21 November 2016, and a further 4% on 1 February 2017. In addition, a \$24m reduction in GWP was recognised at year end, to reflect anticipated refunds for policies on risk at 30 June 2017 that overlap with the new scheme that is expected to commence on 1 December 2017. IAG's share of NSW CTP registrations (on a 12-month rolling average basis) reduced to 32.3% (FY16: 34.2%), reflecting a deliberate reduction in exposure to less profitable business; and
- Lower GWP in the ACT where, in a highly price competitive environment, IAG implemented a rate reduction of 3% from 1 October 2016. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) has stabilised at 55%, which is consistent with FY16.

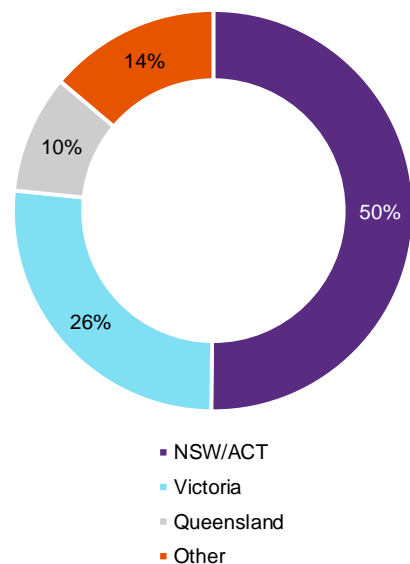
During FY17, the main brands continued to advance their digital sales and service functionality via the online self-service centre and digital claims, as well as an extension of their social media proposition. Developments included:

- Investment in voice and transaction analytics capability to identify and maximise opportunities to improve performance;
- Broadening the online offering to include lifestyle products such as caravan;

FY17 GWP - CLASS



FY17 SHORT TAIL GWP - STATE



6. CONSUMER

- Growth in both the footprint and customer capability of social interactions, including proactive chat and instant messaging;
- Advances in automated cash settlement and home claim lodgement, leading to increased digital lodgement levels;
- Market-leading enhancements to mobile authentication, including application of single-use codes and fingerprint authentication, as well as enablement of push notifications;
- Implementation of a new customer management system that provides knowledge management tools which enhance the quality and efficiency of conversations with customers; and
- Self-service quote and buy functionality for home insurance in the partner network, following the launch of motor and travel last year.

The main brands' online sales channel continued to register substantial growth throughout FY17, of in excess of 24%. NRMA Insurance conducted approximately 23% of new business sales and 24% of renewals online.

The main brands are maintaining their face-to-face differentiation at a competitive cost. Continued expansion in shopping centre-based kiosks is occurring, showcasing NRMA Insurance's online service portal while also offering choice of service by traditional methods. An innovative hub is planned to open in Liverpool (NSW) in October 2017.

REINSURANCE EXPENSE

The division's reinsurance expense was \$1,686m in FY17, compared to \$1,622m in FY16. The 3.9% increase primarily reflects quota share entitlements to higher gross earned premium, comprising:

- Berkshire Hathaway's 20% whole-of-account arrangement; and
- The 30% CTP quota share agreement with Munich Re, which was extended for a minimum four-year period from 1 July 2016 and expanded to include CTP in South Australia from that date.

Excluding quota share elements, the underlying reinsurance expense was lower, with the effect of aggregate growth offset by the lower rate realised for the calendar 2016 and 2017 catastrophe renewals.

CLAIMS

Consumer reported a lower immunised loss ratio of 61.9% in FY17 (FY16: 65.5%). This was driven by the combination of:

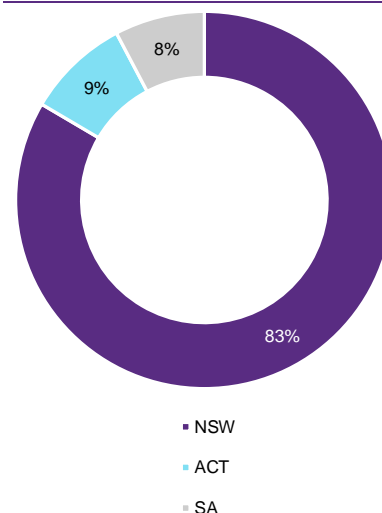
- Similar net natural peril claim costs;
- Higher prior period reserve releases;
- Some reduction in NSW CTP frequency, notably in 2H17; and
- Increased average short tail claim costs in motor, countered by premium rate increases.

The reported loss ratio of 61.2% was lower than that of FY16 (67.7%), and contained a favourable risk free discount rate adjustment of \$29m, compared to an adverse adjustment of \$88m in FY16.

Reserve Releases

Reserve releases of \$365m were over 40% higher than those reported in FY16 (\$254m), and were well above long term expectations. These were predominantly sourced from the NSW and ACT CTP portfolios and followed further favourable experience against existing underlying assumptions for claim size and inflation. The majority of the releases are in respect of 2014 and prior accident years.

FY17 LONG TAIL GWP - STATE



Lower underlying reinsurance expense from favourable calendar 2016 and 2017 catastrophe renewals

Claim cost pressures evident in motor

Significant reserve releases from CTP

6. CONSUMER

FY17 reserve releases were 8.5% of NEP, compared to 6.2% in FY16. Future reserve release levels are expected to moderate.

	1H16	2H16	1H17	2H17	FY16	FY17
RESERVE RELEASES	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	167	87	135	230	254	365
Impact on insurance margin	8.3%	4.2%	6.3%	10.6%	6.2%	8.5%

Natural Perils

Losses from natural perils (net of reinsurance) totalled \$399m, which was marginally lower than the period's allowance. This outcome was assisted by some protection from IAG's calendar 2016 and 2017 aggregate covers, and over \$60m from the natural peril reinsurance cover specific to FY17.

The most significant peril-related claim costs for the division were those from:

- The Adelaide hail storm event in November 2016, which amounted to over \$50m;
- The Northern Sydney hailstorm in February 2017, which resulted in a claim cost of around \$130m; and
- Tropical Cyclone Debbie in late March / early April 2017, which contributed over \$50m.

Individual event costs quoted above are before consideration of the natural peril reinsurance cover specific to FY17.

	1H16	2H16	1H17	2H17	FY16	FY17
NATURAL PERILS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Natural peril claim costs	(131)	(259)	(160)	(239)	(390)	(399)
Natural peril allowance	176	176	203	203	352	406
Impact on insurance profit	45	(83)	43	(36)	(38)	7
Impact on insurance margin	2.2%	(4.0%)	2.0%	(1.7%)	(0.9%)	0.2%

Claims Experience

The division's underlying claims performance in FY17 saw an adverse claim cost trend in short tail motor and an improvement in claims experience in long tail CTP, specifically in 2H17.

Short tail claims experience in FY17 was characterised by:

- Increased average motor collision costs, including higher total losses, poorer experience with non-partner repairers and increased credit hire-related activities;
- Relatively stable motor collision frequency; and
- Some offset from a lower average home claim cost.

Improvement in the customer and quality outcomes from the motor repair relationship model has cushioned repair cost pressures, while there is an ongoing drive to increase the utilisation and uptake of the home supply chain model across all brands. There is scope for significantly increased customer use of preferred supplier networks, based on current uptake levels of ~65% for motor and ~47% for home.

Further initiatives that will address increased motor claim costs are close to finalisation.

NSW CTP claim levels remained high in 1H17, however a reduction in small claim frequency was evident in 2H17. This followed the regulatory cap placed on legal costs for CTP claims made after 1 November 2016. IAG has been actively involved in the industry-wide response to fraudulent claims.

Net natural peril experience in line with allowance

Adverse claim cost trend in motor

6. CONSUMER

EXPENSES

Consumer's reported expenses totalled \$859m in FY17, compared to \$769m in FY16. This higher outcome included:

- Additional cost from business growth;
- Increased investment in the Satellite business, which experienced strong growth in the year;
- A higher earned effect of ESL (matching the associated NEP impact); and
- A small net negative from optimisation initiatives, as modest initial benefits were more than offset by related implementation costs.

The reported expense ratio rose to 19.9% (FY16: 18.9%), and on an ex-leaves basis the administration ratio increased slightly to 11.0% (FY16: 10.6%).

Higher expenses from business growth and small net negative from optimisation

INSURANCE PROFIT

Consumer reported an insurance profit of \$941m, compared to \$805m in FY16. This equates to a higher reported insurance margin of 21.8% compared to FY16 (19.8%), and included the net effect of:

- Considerably higher prior period reserve releases;
- Net natural peril claim costs which were in line with allowance, compared to FY16's overrun against allowance; and
- A favourable credit spread movement of over \$30m.

The division's underlying performance was strong, with an underlying margin of 13.9% broadly consistent across the year. This outcome was lower than FY16 (16.0%) and contained:

- Pressure on profitability from higher claim costs, notably in short tail motor, moderated by solid premium rate increases across the year;
- A slight drag on reported and underlying margin from the stronger growth of the lower margin Satellite offering, comprising Coles Insurance, SGIO, SGIC and IAL (via the intermediated channel in partnership with Steadfast); and
- An improvement in NSW CTP profitability in 2H17, following the regulatory cap on legal fees for low value claims, introduced from 1 November 2016.

Strong underlying margin of 13.9% in FY17

	1H16	2H16	1H17	2H17	FY16	FY17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	167	87	135	230	254	365
Natural perils	(131)	(259)	(160)	(239)	(390)	(399)
Natural peril allowance	176	176	203	203	352	406
Credit spreads	(9)	(12)	3	10	(21)	13
Reserve releases	8.3%	4.2%	6.3%	10.6%	6.2%	8.5%
Natural perils	(6.5%)	(12.6%)	(7.5%)	(11.0%)	(9.6%)	(9.2%)
Natural peril allowance	8.7%	8.6%	9.5%	9.3%	8.7%	9.4%
Credit spreads	(0.4%)	(0.6%)	0.1%	0.5%	(0.5%)	0.3%

6. CONSUMER

MARKET ENVIRONMENT AND OUTLOOK

Market conditions for the personal insurance market are expected to remain competitive in FY18, in an environment of low economic growth and limited areas for future growth. Competitive forces from challengers, disruptors and new entrants are expected to continue, as is the industry-wide focus on quality underwriting, increased efficiency and cost reduction.

With a full range of customer value propositions, Consumer is well-placed to compete in the current environment. Top line growth is expected to be driven by innovative products, employment of increasingly sophisticated data and risk analytics, and greater personalisation of products and services to connect customers with their insured assets and provide greater online engagement.

Claims inflation in the short tail motor book remains an ongoing concern. IAG is actively addressing this through a combination of rate increases and operational initiatives aimed at reducing associated cost pressures.

NSW CTP scheme reform, planned for implementation from 1 December 2017, is expected to result in significant premium rate decreases. IAG has already reduced its rates by 4% on 1 July 2017 and a further 4% reduction will take effect from 4 September 2017.

The combination of ongoing rate increases in short tail lines, primarily motor, and the impact of scheme reform in lowering NSW CTP rates is expected to result in relatively flat GWP in FY18.

Consumer's underlying profitability is expected to remain strong in FY18, while reported profitability is expected to contain significantly lower prior period reserve releases than FY17.

While NSW CTP scheme reform is expected to ease pressure on current year CTP profitability from 2H18 onwards, owing to greater certainty around claim costs, limited impact is anticipated in FY18. Some longer term uncertainty attaches to the effect of the proposed Profit Normalisation Mechanism (PNM), which remains subject to finalisation.

Consumer remains well-placed to meet the challenges of a competitive market

7. BUSINESS

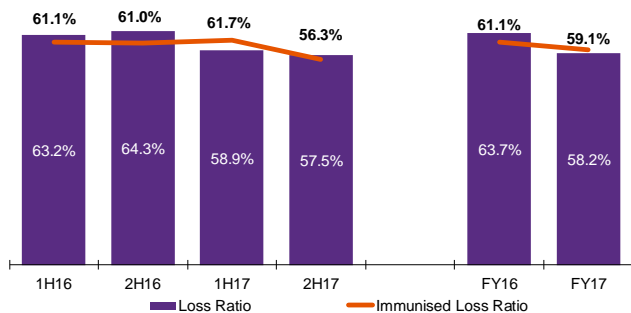
FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
Gross written premium	1,419	1,560	1,423	1,539	2,979	2,962
Gross earned premium	1,597	1,525	1,550	1,466	3,122	3,016
Reinsurance expense	(413)	(406)	(417)	(376)	(819)	(793)
Net earned premium	1,184	1,119	1,133	1,090	2,303	2,223
Net claims expense	(748)	(719)	(667)	(627)	(1,467)	(1,294)
Commission expense	(185)	(162)	(173)	(168)	(347)	(341)
Underwriting expense	(226)	(222)	(217)	(230)	(448)	(447)
Underwriting profit	25	16	76	65	41	141
Investment income on technical reserves	75	114	5	58	189	63
Insurance profit	100	130	81	123	230	204
Profit/(loss) from fee based business	11	(7)	2	(30)	4	(28)
Share of profit/(loss) from associates	1	-	-	(1)	1	(1)
Total divisional result	112	123	83	92	235	175

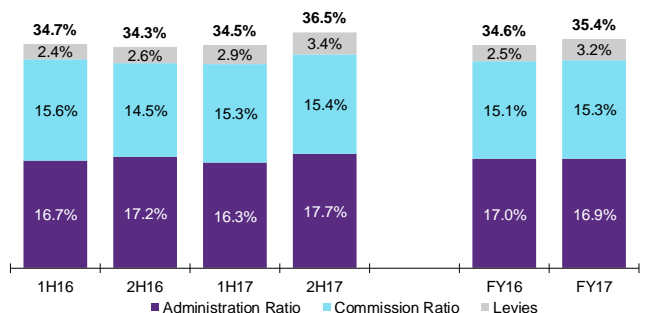
	1H16	2H16	1H17	2H17	FY16	FY17
Insurance Ratios						
Loss ratio	63.2%	64.3%	58.9%	57.5%	63.7%	58.2%
Immunised loss ratio	61.1%	61.0%	61.7%	56.3%	61.1%	59.1%
Expense ratio	34.7%	34.3%	34.5%	36.5%	34.6%	35.4%
Commission ratio	15.6%	14.5%	15.3%	15.4%	15.1%	15.3%
Administration ratio	19.1%	19.8%	19.2%	21.1%	19.5%	20.1%
Combined ratio	97.9%	98.6%	93.4%	94.0%	98.3%	93.6%
Immunised combined ratio	95.8%	95.3%	96.2%	92.8%	95.7%	94.5%
Insurance margin	8.4%	11.6%	7.1%	11.3%	10.0%	9.2%
Underlying insurance margin	10.7%	8.6%	8.8%	4.9%	9.7%	6.9%

INSURANCE RATIOS

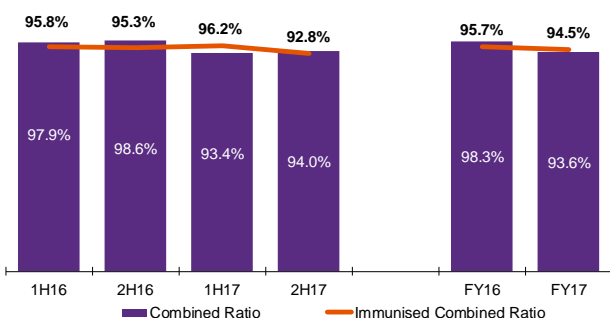
LOSS RATIO



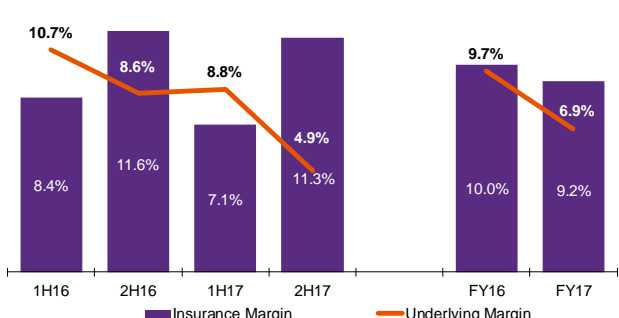
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

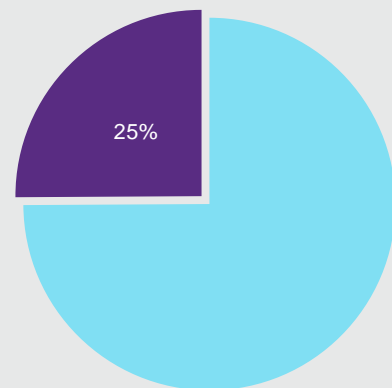


7. BUSINESS

EXECUTIVE SUMMARY

- Business 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
- Over 4% like-for-like increase in FY17 GWP, after allowing for divestment of Swann Insurance's car dealership business
- Increased intermediated rate momentum over the course of FY17, with retention holding up better than expected
- Lower underlying margin of 6.9% after adverse large loss experience, particularly in 2H17
- Reported margin of 9.2% (FY16: 10.0%) includes favourable reserve release outcome
- Positive margin outlook as rate increases earn through and large loss experience normalises

Business - % Group GWP



PREMIUMS

Business recorded relatively flat GWP of \$2,962m, compared to FY16 (\$2,979m). After allowance for the divestment of the Swann Insurance car dealership business, like-for-like GWP was over 4% higher. This outcome contained:

- Targeted rate increases in most classes, with increased momentum over the course of the year;
- The shedding of poorly performing business, notably in the areas of workers' compensation and property;
- Strong underwriting agency-derived growth;
- Steady retention rates, which held up better than expected; and
- Lower new business opportunities and volumes.

Business has continued to focus on underwriting discipline and increasing rates in specific business segments through targeted portfolio reviews. This process commenced over 18 months ago and has gathered momentum. Whilst rate increases vary by segment, portfolios such as business packages, property and commercial motor have seen up to double digit advances, without adverse impact on volumes.

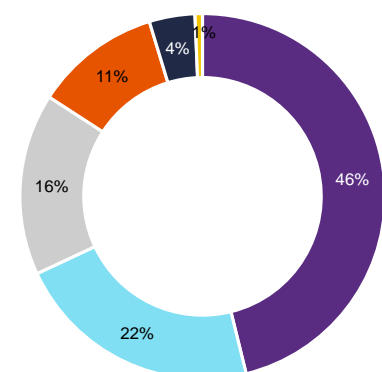
The key June renewal period, which represents approximately 20% of Business' annual GWP, saw rate increases of around 5% across the intermediated business portfolio.

GWP in the workers' compensation portfolio was adversely affected by the tougher economic conditions and lower wage levels in the Western Australian economy. Lower GWP also reflected targeted portfolio remediation which saw an exit from poorly performing accounts. Workers' compensation GWP declined by \$27m compared to FY16, or nearly 8%, with the year-on-year decline slowing notably in the second half.

Strata continued to operate in a highly competitive market, resulting in a decline in GWP of \$19m compared to FY16, or nearly 15%. The decline in premium slowed in 2H17 as retention rates showed signs of improvement. A continued disciplined approach to pricing has generated some improvement in profitability in FY17.

Like-for-like GWP increase of over 4%, excluding Swann Insurance divestment

FY17 GWP - CLASS



- SME
- Speciality Lines
- Fleet/Commercial Motor
- Workers' Compensation
- Personal Lines
- Other

7. BUSINESS

The Swann Insurance motor dealer, finance broker and fleet network business was divested at the beginning of August 2016 and resulted in a contraction in GWP of approximately \$130m, compared to FY16. The effect of this portfolio's absence impacts the 'personal lines' and 'other' classes.

Business continues to actively pursue an underwriting agency strategy. This area delivered GWP of over \$400m, representing growth of 11%, despite lower strata volumes. Excluding strata, growth of 21% was sourced from surety and trade credit offerings, as well as contributions from Pacific Indemnity (specialised professional risk products) and the joint venture with Bond Credit Company (debtor payment default protection and a solution to facilitate and support the successful completion of merger and acquisition transactions).

In 2H17 IAG and Suncorp agreed to combine their similar-sized marine portfolios within the NTI joint venture (50% IAG, 50% Suncorp), to create Australia's leading marine insurance specialist under the brand Marine Protect: Powered by NTI. Related annual GWP amounts to over \$80m (100%), with new business transfers successfully executed from April 2017 and renewals commencing June 2017.

The direct market continued to perform well and represented 24% of Business' GWP in FY17 (FY16: 23%). Policy growth in the online digital channel was approximately 8%, off a low base.

Long tail classes represented around 28% of Business' GWP in FY17 (FY16: 27%).

GWP attributable to ESL in NSW was \$63m in FY17 (FY16: \$71m), with a corresponding cost included in the underwriting expense line, after allowance for the 20% quota share and earned effects. Phased ESL collection in anticipation of its originally intended abolition from 1 July 2017 saw related GWP of \$45m recognised in 1H17, declining to \$18m in 2H17. At the end of May 2017, the NSW government determined to defer abolition of ESL.

Business continues to enhance its product offering, strengthen its partnerships and improve the quality of its customer service. Initiatives during FY17 included:

- The launch of a new CGU-branded website and marketing campaign, YouOwnIt, which supports and promotes an enhanced direct proposition for the micro and SME segments;
- The launch of a partnership with Prospa, which helps small business owners better manage cashflow;
- The implementation of a new organisational design centred on customer segments, as opposed to distribution channels;
- The formation of a new risk management services capability;
- Further development of new offerings for the farming sector, including Hobby Farm via the digital channel, a multi-peril crop initiative and products aimed at the corporate farming segment; and
- The WFI brand entering a three-year strategic partnership with the National Farmers' Federation (NFF) as the official insurance category sponsor of its new online platform. WFI is helping the NFF deliver better engagement and leadership for Australian farmers, agribusiness and consumers, while enhancing WFI brand awareness.

During the year, Business' CGU brand announced an extension of its Premier Partnership with Collingwood Football Club through to the end of the 2022 season. This is in addition to CGU's position as a foundation sponsor of the Collingwood Women's team.

Further initiatives to
enhance product offering
and strengthen partnerships

7. BUSINESS

Business' strong levels of service and partnership capabilities have continued to be reflected in industry recognition:

- In July 2016, CGU was a winner of the Mumbrella collaboration award, in partnership with its advertising and media agencies, for work in 'Seeing It Through' for Tropfest, the world's largest short film festival;
- In September 2016, CGU was voted 'General Insurer of the Year' for the second year in a row in the annual National Insurance Brokers Association Insurer Survey by Brokers;
- In December 2016, Accident & Health International (AHI) and Strata Unit Underwriters (SUU) won awards in their respective product categories in the Insurance Business Broker on Underwriting Agencies Awards;
- 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; and
- The 2017 Nielsen Insurance Relationship Survey, which used a net promoter score across the Australian broker market, rated CGU above its major competitors in terms of advocacy.

REINSURANCE EXPENSE

Business' reinsurance expense was \$793m in FY17, compared to \$819m in FY16.

Excluding the reinsurance expense directly stemming from the Berkshire Hathaway quota share arrangement, Business' FY17 reinsurance expense was marginally lower than FY16, reflecting the amalgam of:

- Lower catastrophe cover costs from the calendar 2016 and 2017 renewals; and
- Business mix changes within a relatively flat GWP outcome.

CLAIMS

Business' FY17 immunised loss ratio of 59.1% was lower than FY16 (61.1%). This outcome incorporated a reduced degree of adverse net natural peril claim experience compared to FY16, and higher prior period reserve releases.

Business' underlying claims performance has continued to incorporate an elevated level of large losses, principally in the property portfolio. While experience in 1H17 was consistent with 1H16, a particularly high incidence of such losses in 2H17 caused an adverse loss ratio impact of around 250bps compared to 2H16 and 1H17. The property large loss experience for FY17 as a whole was well above the long term historical average. Designated large property losses typically exceed an individual net cost of \$200,000.

Rate increases in retained business served to offset underlying claims inflation in the period.

Long tail classes saw continued favourable claims experience, reflecting the general economic environment, lower frequency and positive impacts from portfolio remediation in workers' compensation and liability.

The overall reported loss ratio was 58.2%, compared to 63.7% in FY16. It contained a favourable risk free discount rate adjustment of \$19m, compared to an unfavourable effect of \$60m in FY16.

Continued industry recognition for CGU

Lower underlying reinsurance expense from favourable calendar 2016 and 2017 catastrophe renewals

Underlying claims performance bearing heavier large loss experience

7. BUSINESS

Reserve Releases

Prior period reserve releases of \$93m were higher than those reported in FY16 (\$86m) and, at 4.2% of NEP, remained well above IAG's long term expectation of 1%. These releases reflect continued favourable claims experience against underlying assumptions for claim size and inflation across the long tail classes of liability, professional risks and workers' compensation.

Higher reserve releases, above long term expectation

	1H16	2H16	1H17	2H17	FY16	FY17
RESERVE RELEASES	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	29	57	24	69	86	93
Impact on insurance margin	2.4%	5.1%	2.1%	6.3%	3.7%	4.2%

Natural Perils

Losses from natural perils (net of reinsurance) totalled \$235m, which was \$27m higher than the period's allowance. This outcome was assisted by some protection from IAG's calendar 2016 and 2017 aggregate covers, and over \$30m from the natural peril reinsurance cover specific to FY17.

Perils \$27m above allowance

The most significant peril-related claim costs for the division were those from:

- The Adelaide hail storm event in November 2016, which amounted to approximately \$40m; and
- Tropical Cyclone Debbie in late March / early April 2017, which contributed around \$75m.

Individual event costs quoted above are before consideration of the natural peril reinsurance cover specific to FY17.

	1H16	2H16	1H17	2H17	FY16	FY17
NATURAL PERILS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Natural peril claim costs	(133)	(97)	(137)	(98)	(230)	(235)
Natural peril allowance	95	95	104	104	190	208
Impact on insurance profit	(38)	(2)	(33)	6	(40)	(27)
Impact on insurance margin	(3.2%)	(0.2%)	(2.9%)	0.5%	(1.7%)	(1.2%)

EXPENSES

Business' reported expenses totalled \$788m in FY17, compared to \$795m in FY16. The small reduction in expenditure reflects the net effect of:

- The absence of expenses associated with the divested Swann Insurance car dealership business;
- A higher earned effect of ESL (matching the associated NEP impact);
- A full year's benefit of all synergies from the integration of the former Wesfarmers business; and
- A small net negative from optimisation initiatives, as modest initial benefits were more than offset by related implementation costs.

Small reduction in expenses

Business' reported expense ratio, of 35.4%, was slightly higher than FY16 (34.6%) and, on an ex-levees basis, its administration ratio reduced marginally to 16.9% (FY16: 17.0%).

Despite relatively flat underlying expenditure, the 2H17 expense ratio deteriorated to 36.5%. This was influenced by lower 2H17 NEP, in part reflecting the seasonal skew of NEP to the front half of the financial year for certain portfolios, notably crop.

Business' commission ratio increased to 15.3% (FY16: 15.1%), largely reflecting changes in business mix.

7. BUSINESS

INSURANCE PROFIT

Business reported a lower insurance profit of \$204m, compared to FY16 (\$230m). This equates to a reported insurance margin of 9.2% which, compared to FY16 (10.0%), includes the net effect of:

- Increased large loss experience;
- A similar net natural peril claim cost;
- Higher prior period reserve releases;
- A favourable credit spread movement of \$23m; and
- Lower investment income following the reduction in technical reserves as a result of the asbestos reinsurance arrangement in 2H16.

Business produced a weaker underlying margin of 6.9% in FY17. This was driven by an adverse large loss experience against FY16 and prior years, which was particularly pronounced in 2H17. The earn-through of lower GWP in prior periods, particularly in 1H17, was also a contributory factor.

Softer underlying margin of 6.9%, reflecting increased large loss experience

	1H16	2H16	1H17	2H17	FY16	FY17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	29	57	24	69	86	93
Natural perils	(133)	(97)	(137)	(98)	(230)	(235)
Natural peril allowance	95	95	104	104	190	208
Credit spreads	(6)	(10)	2	5	(16)	7
Reserve releases	2.4%	5.1%	2.1%	6.3%	3.7%	4.2%
Natural perils	(11.2%)	(8.7%)	(12.1%)	(9.0%)	(10.0%)	(10.6%)
Natural peril allowance	8.0%	8.5%	9.2%	9.5%	8.3%	9.4%
Credit spreads	(0.5%)	(0.9%)	0.2%	0.5%	(0.7%)	0.3%

FEE BASED INCOME

Net income from fee based operations was a loss of \$28m, compared to a profit of \$4m in FY16.

The principal source of fee income for Business is its role as agent under both the NSW and Victorian workers' compensation schemes, which are underwritten by the respective State governments.

In March 2017 CGU decided to withdraw from the NSW scheme by 31 December 2017 after assessment of associated risks and returns. CGU is in negotiations with the governing body, icare, regarding its disengagement plan including the remuneration payable in 1H18 and the transition of claims and policy files. Anticipated redundancy payments and fixed technology recharges of approximately \$13m have been provided for in FY17.

Fee based income in FY17 included \$5m of prior period fee income in respect of the Victorian scheme. Excluding this, the underlying result was \$17m unfavourable to FY16, which was driven by:

- The loss of the largest employer in the Victorian scheme following an unsuccessful tender submission and a reduction in CGU's service fee under a new five-year contract;
- Unfavourable changes to the NSW remuneration model in the final year of the current contract period; and
- Lower than expected returns from performance and incentive fees in both States.

Fee based result includes \$13m provision for withdrawal from NSW scheme

7. BUSINESS

A secondary source of fee income is Business' interest in authorised representative brokers, which it has consolidated into one entity following the integration of Westcourt General Insurance Brokers with National Advisor Services.

MARKET ENVIRONMENT AND OUTLOOK

After several years of difficult pricing conditions, the Australian commercial insurance industry is experiencing an improved environment, indicating the industry is continuing to move away from the bottom of the cycle. This is supported by an increase in premium rates, strong retention and, consequently, like-for-like GWP growth.

Growth rates in FY18 are anticipated to remain stable in the intermediated market, while more moderate growth is expected in direct channels. Higher natural peril levels, rising claim costs and the low interest rate environment provide impetus for ongoing rate increases.

Meanwhile, the industry continues to focus on efficiency and expense management, in addition to the improvement of customer and broker propositions, to bolster profitability.

The nature of customer behaviour is undergoing change, with an increasing appetite to transact and receive service online. Business is responding to these changes and the overall competitive environment by placing a greater focus on customer and omni-channel experience.

Business is targeting specific customer strategies which aim to achieve growth through new customer acquisition, as well as the continuation of targeted rate increases in FY18.

In July 2017, Swann Insurance decided to cease participation via the motorcycle dealer channel and focus entirely on selling products direct to customers, where it already has a strong and growing proposition for motorcycle enthusiasts. A reduction of up to \$60m in GWP is expected in FY18, including the residual effect of the divestment of the Swann Insurance car dealership business in early FY17.

Overall, Business' GWP growth is expected to be modest in FY18.

Business' underlying margin is expected to improve in FY18, owing to the earn through of cumulative rate increases, cost optimisation savings and an anticipated return to more normal large loss experience.

Positive momentum in commercial rates

8. OPERATIONS

EXECUTIVE SUMMARY

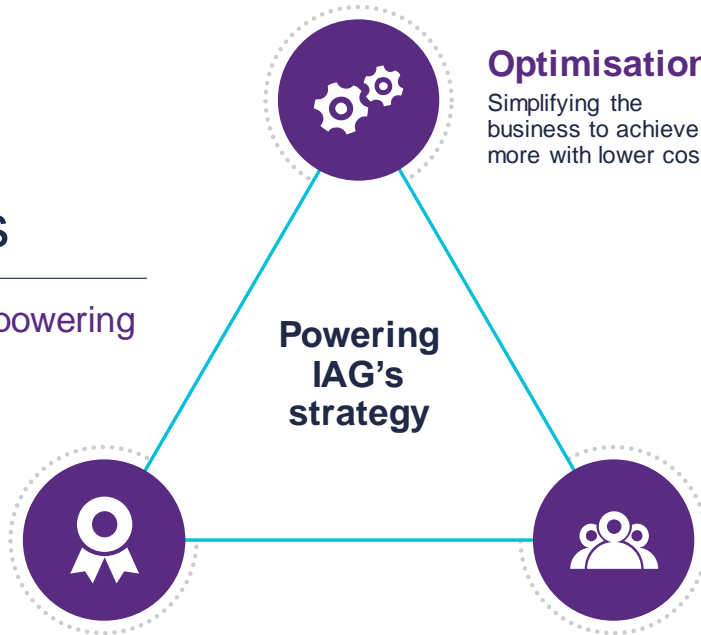
Operations underpins all of the activities that support and drive IAG's insurance businesses, including technology, claims, procurement and supply chain. It is also charged with execution of IAG's operational partnering initiatives and the implementation and governance of its optimisation program.

Operations

Enabling and empowering IAG's strategy

Operational excellence

Leveraging scale in claims, supply chain and partnerships



OPTIMISATION PROGRAM

Core to Operations' focus is the governance of all the activities that form IAG's optimisation program. This is a portfolio of initiatives designed to simplify IAG's business which, in turn, will reduce IAG's controllable expense base by at least \$250m – or 10% – while also enabling significant improvements to productivity and the customer experience.

Three core pillars underpin optimisation:

1. Effective partnering;
2. Core systems consolidation; and
3. Supply chain optimisation.

FY17 ACTIVITIES

Specific initiatives progressed in FY17 and supporting these value levers include:

- Embedding the Optimisation Office, providing enterprise-wide visibility, clear accountabilities and a transparent investment framework for strategic initiatives within the optimisation program;
- Continued delivery of the operational partnering program, which outsources and offshores specific activities to global service suppliers with superior scale and expertise, including:

Optimisation program core to Operations' focus

Range of activities progressed in FY17

8. OPERATIONS

- The first tranche of transition to offshore partners, covering accounts payable and accounts receivable (Australia and New Zealand), digital classification (Australia), payroll (Australia), premium administration and credit (Australia) and digital customer support (webchat Australia);
- A second partnering wave going live, encompassing 36 transitions;
- Implementing an Operational Partnering Excellence framework to build organisational capability;
- Planning a third partnering wave; and
- Establishing an automation centre of excellence for Robotic Process Automation (RPA);
- Commencement of activities to consolidate and simplify IAG's core technology systems across Australia and New Zealand, including use of the proven Guidewire platforms;
- Ongoing reforms to procurement and supply chain practices, including:
 - Consolidation of suppliers and negotiation of better rates;
 - Increased utilisation of preferred partners in property and motor claims; and
 - Implementation of an IAG-wide procurement policy, procurement analytics and a buying portal with improved transparency of major supplier contracts;
- Consolidation of the property footprint and increased adoption of flexible working practices, with leases in Perth and Melbourne executed and the Sydney head office move on track to take place in 2018; and
- Completion of a refreshed technology strategy and roadmap, including:
 - End-to-end digital enablement across the value chain;
 - Technology simplification; and
 - Optimisation and enhancement of platforms whilst creating and embedding an aligned operating model across all technology areas.

FY18 PRIORITIES

During FY18 Operations will continue to focus on the delivery of core initiatives commenced in FY17, including:

- Continued transition of targeted activities (including repairable motor claims and simple property claims) to access the capability of selected service partners and leverage their global expertise to optimise business processes;
- Transition of IAG's claims operations onto a single version of Guidewire's ClaimCenter system, which is expected to be largely complete by the end of FY18;
- Streamlining of technology infrastructure and applications;
- Optimisation of the supply chain network to support improved customer experiences through operational excellence with IAG's partners; and
- Embedding leadership capability and systems of work that support employees to excel and drive the right culture at IAG.

As announced on 19 July 2017, Operations became part of a single Australian division, with immediate effect. The Australia Division simplifies IAG's operating model by centralising accountability for the customer, product, distribution and operations functions for IAG's Australian brands.

As part of the simplification process, on 1 August 2017 IAG consolidated its nine Australian general insurance licences into two after receiving approval from the Federal Court of Australia.

FY18 focus on the delivery of core initiatives commenced in FY17

8. OPERATIONS

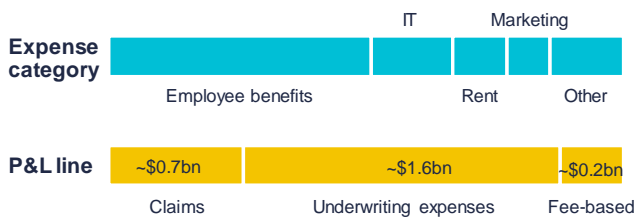
Optimisation program

At least 10% reduction in run rate exiting FY19

Three core pillars

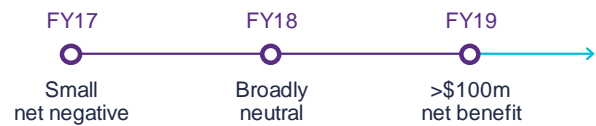
- 1/ Effective partnering
- 2/ Core systems consolidation
- 3/ Procurement maximisation

~\$2.5bn of gross operating costs
(excluding commission)



Progressive realisation of benefits

Expected net profile



- Exiting FY19 at \$250m annual benefit run rate
- Intention to absorb related costs 'above the line', subject to lumpiness
- Further benefits beyond FY19

9. NEW ZEALAND

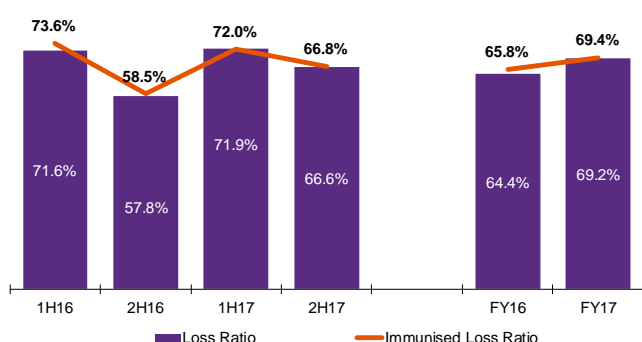
FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
Gross written premium	1,070	1,112	1,128	1,211	2,182	2,339
Gross earned premium	1,101	1,100	1,143	1,144	2,201	2,287
Reinsurance expense	(340)	(283)	(311)	(321)	(623)	(632)
Net earned premium	761	817	832	823	1,578	1,655
Net claims expense	(545)	(472)	(598)	(548)	(1,017)	(1,146)
Commission expense	(96)	(85)	(95)	(94)	(181)	(189)
Underwriting expense	(126)	(126)	(116)	(124)	(252)	(240)
Underwriting profit/(loss)	(6)	134	23	57	128	80
Investment income on technical reserves	17	(10)	13	32	7	45
Insurance profit	11	124	36	89	135	125
Profit from fee based business	1	-	-	-	1	-
Total divisional result	12	124	36	89	136	125

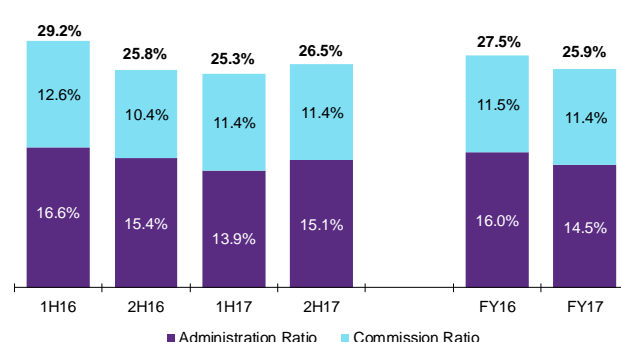
	1H16	2H16	1H17	2H17	FY16	FY17
Insurance Ratios						
Loss ratio	71.6%	57.8%	71.9%	66.6%	64.4%	69.2%
Immunised loss ratio	73.6%	58.5%	72.0%	66.8%	65.8%	69.4%
Expense ratio	29.2%	25.8%	25.3%	26.5%	27.5%	25.9%
Commission ratio	12.6%	10.4%	11.4%	11.4%	11.5%	11.4%
Administration ratio	16.6%	15.4%	13.9%	15.1%	16.0%	14.5%
Combined ratio	100.8%	83.6%	97.2%	93.1%	91.9%	95.1%
Immunised combined ratio	102.8%	84.3%	97.3%	93.3%	93.3%	95.3%
Insurance margin	1.4%	15.2%	4.3%	10.8%	8.6%	7.6%
Underlying insurance margin	18.4%	15.5%	15.3%	14.3%	16.9%	14.8%

INSURANCE RATIOS

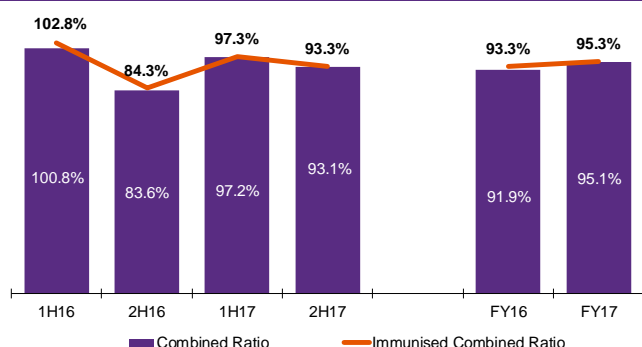
LOSS RATIO



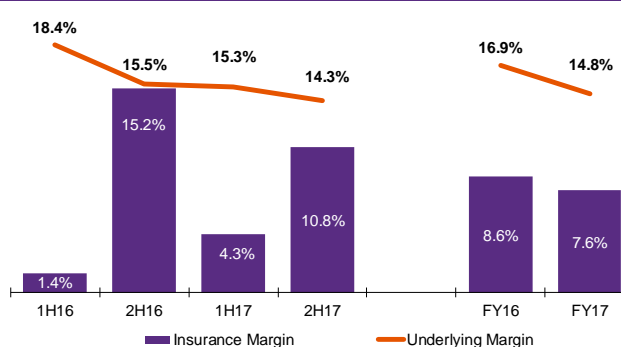
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

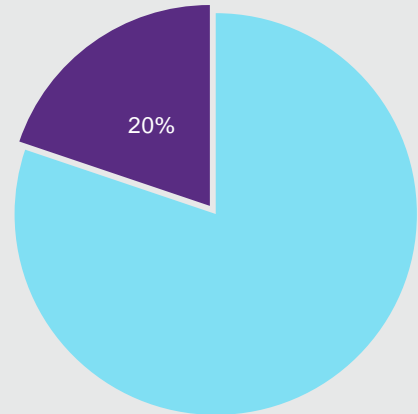


9. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- GWP grew by 7.2% (4.3% in local currency), as strong personal lines growth was supplemented by improved commercial market conditions in 2H17
- Strong underlying operating performance maintained, despite adverse impact of higher short tail claim costs
- Reported margin of 7.6% includes peril impact of \$120m from Kaikoura earthquake in November 2016
- High natural peril activity continued in 2H17, following a range of events
- Strong cost control driving lower expense ratio
- Higher GWP growth and strong underlying profitability expected in FY18

New Zealand - % Group GWP



PREMIUMS

New Zealand reported GWP of \$2,339m (FY16: \$2,182m), representing growth of 7.2%. This included a favourable foreign exchange translation effect, skewed to the front half of the year, with local currency GWP increasing by 4.3% to NZ\$2,475m. This outcome embraces:

- Strong GWP growth in the Consumer Division, led by the private motor vehicle portfolio from a combination of higher volumes and rates; and
- Improving GWP growth in the Business Division where positive signs of rate growth emerged in commercial lines in 2H17.

Against the prior corresponding period, local currency GWP growth was 7.5% in 2H17, rising from 1.1% in 1H17.

The Consumer Division represented 58% of New Zealand's GWP in FY17 (FY16: 57%) and achieved GWP growth of 5.5% in local currency terms, of which roughly one quarter was volume-derived. The AMI private motor portfolio led this growth, registering strong volume and rate increases, with the latter addressing ongoing claims inflation pressures.

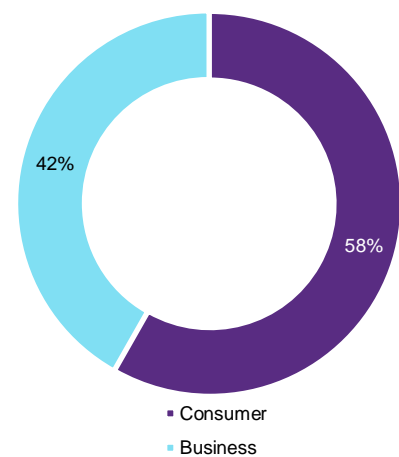
The Consumer Division's commitment to providing positive customer experiences and its focus on customer-led propositions targeting specific customer needs has resulted in continued improvement in its net promoter score. This has also seen improved customer retention rates, against FY16, for all key personal lines products, including those with banking partners.

The Consumer Division includes the direct SME market, which continues to generate sound growth and represents annual GWP of approximately \$70m. The needs of this segment were addressed through the establishment of a Growth Hub team in FY16, which is focusing on the delivery of New Zealand's direct and bank SME strategy.

The Consumer Division has continued to play an active role in the community. Engagement with local community groups included sponsorship of the Chinese New Year festival, being the lead sponsor of the annual Pacific Island culture and heritage celebration (Pasifika), and sponsor of the Auckland Council Maori New Year (Matariki) celebrations. The Consumer Division has also hosted AMI Orientation weeks, providing insurance insights in key universities and polytechnics across New Zealand and education around risk in the home, and has launched the AMI Community Grants program.

Solid GWP growth - sound Consumer performance supplemented by improved Business growth in 2H17

FY17 GWP - DIVISION



9. NEW ZEALAND

The Business Division represented 42% of New Zealand's GWP in FY17 (FY16: 43%), and registered GWP growth in local currency terms of over 2%. While market conditions remain competitive, positive rate movements were evident in 2H17, delivering a greater than 8% increase in local currency GWP over the comparable half in FY16. This was in contrast to the decline of over 3% in 1H17.

Improved conditions were particularly evident in the regions impacted by the Kaikoura earthquake in November 2016, where strong underwriting and pricing disciplines have been maintained. Post-Kaikoura, the market has seen a reduction, and in some cases withdrawal, of capacity by a number of competitors. This has resulted in a significant increase in rates and high retention levels in the affected regions.

Overall, new business rates across the Business Division improved on FY16 experience, led by the commercial property portfolio. Retention rates in all key commercial lines of business improved on FY16 levels, as the division continues to focus on building successful partnerships, providing comprehensive insurance solutions and supporting customers to grow and be successful.

NZI's strong market standing was demonstrated in November 2016 when it was named 'Insurer of the Year' in the 2016 Katnar TNS Industry Survey. Brokers across New Zealand voted in the annual survey, recognising NZI for supporting the community, providing comprehensive solutions, superior service and building strong partnerships. More recently, NZI was named as a finalist in the AUT Excellence in Business Support Awards in both the Large Business and Financial Services Support categories.

Local industry recognition during the year included NZI's Safe Driving Rewards Programme winning Innovation of the Year at the 2016 ANZIIF Industry Awards in November 2016. This initiative uses data derived from telematics to assess insurance risk for heavy motor vehicles and rewards customers for better driving performance.

CCS Innovation in Logistics (CCS Logistics) was acquired in April 2017, reinforcing IAG's commitment to supporting its commercial motor customers to be safer on the roads. CCS Logistics is a fleet efficiency and safer driver coaching business and is recognised as a New Zealand leader in data-driven fleet management. CCS Logistics is behind NZI's 'Drive Smart' proposition as part of its Fleet Fit program for heavy motor clients, and is a competitive differentiator for NZI's business.

REINSURANCE EXPENSE

New Zealand's reinsurance expense was \$632m in FY17, compared to \$623m in FY16. This comprises two elements:

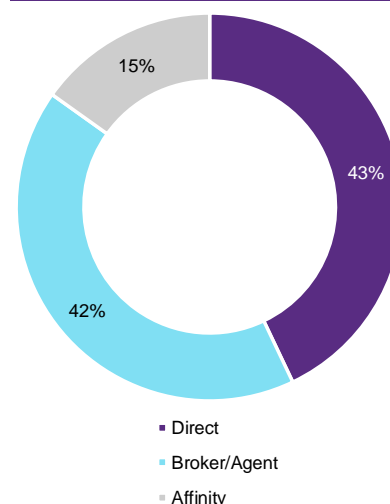
- Berkshire Hathaway's portion of gross earned premium under the 20% quota share agreement, which grew in line with business growth; and
- A lower non-quota share expense, driven by expense savings from IAG's calendar 2016 and 2017 catastrophe renewals.

CLAIMS

New Zealand immunised loss ratio of 69.4% was higher than FY16 (65.8%), reflecting the combination of:

- Substantially higher net natural peril claim costs of \$182m (FY16: \$39m), which were \$118m above allowance;
- Minor prior period reserve strengthening (FY16: \$149m strengthening);
- A higher working and large claims experience; and

FY17 GWP - CHANNEL



Lower non-quota share reinsurance expense from favourable renewals

Claims outcome includes severe peril activity and adverse working and large claims experience

9. NEW ZEALAND

- Higher claim handling costs, as the business supported its customers in resolving higher claim volumes.

The reported loss ratio of 69.2% (FY16: 64.4%) included a modest foreign exchange impact from reinsurance recoveries tied to the FY11 earthquakes, as held by the offshore captive in Singapore. This compared to the \$24m favourable effect in FY16.

A number of significant natural disaster events occurred during FY17. The most notable was the Kaikoura earthquake in November 2016 which contributed a net claim cost after reinsurance of \$120m. The 7.8 magnitude temblor affected a widespread region with the majority of claims received from an area spanning Christchurch through to Wellington. The worst affected areas were the Kaikoura, North Canterbury and Southern Marlborough regions, while commercial claims were mainly centred on the Wellington CBD.

In December 2016 the insurance industry and the Earthquake Commission (EQC) agreed a streamlined process for the handling of Kaikoura-related claims for homes and contents. All private insurers are assessing and settling personal home and contents claims, regardless of whether they are under or over the EQC's cap of NZ\$20,000 for contents and NZ\$100,000 for home damage (plus GST). The private insurers are being reimbursed by the EQC for its liability following claims settlement. The agreement removes unnecessary duplication, while providing a much better customer experience.

At 30 June 2017 over NZ\$70m of claim settlements for the Kaikoura earthquake had been completed, with nearly 37% of all claims by number fully settled at that date. Initial residential dwelling assessments for the worst affected region were complete by 30 June 2017, and a third of residential claims had been fully settled at that date.

The introduction, post the FY11 Canterbury earthquake events, of site sum insured excesses to commercial natural disaster policies has reduced the number of commercial claims received, and their quantum. At 30 June 2017, over 52% of commercial claims from the Kaikoura event had been settled.

2H17 saw a sequence of significant natural peril events, including:

- Tropical Cyclone Debbie, which caused significant damage to the Edgecumbe community;
- The upper North Island floods in March;
- Ex-Tropical Cyclone Cook; and
- The Port Hills fires.

Collective peril events in 2H17 amounted to \$59m and exceeded the related allowance by \$27m.

	1H16	2H16	1H17	2H17	FY16	FY17
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
NATURAL PERILS						
Natural peril claim costs	(14)	(25)	(123)	(59)	(39)	(182)
Natural peril allowance	28	28	32	32	56	64
Impact on insurance profit	14	3	(91)	(27)	17	(118)
Impact on insurance margin	1.9%	0.4%	(11.0%)	(3.3%)	1.1%	(7.1%)

There was a minor prior period reserve strengthening in FY17. This outcome was in contrast to FY16, when a \$149m net strengthening was primarily driven by a NZ\$150m increase to risk margin in respect of the February 2011 earthquake event.

Net cost of \$120m from Kaikoura earthquake

Landmark agreement with EQC for handling of Kaikoura earthquake claims, removing duplication

9. NEW ZEALAND

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
RESERVE RELEASES						
Reserve releases	(143)	(6)	-	(2)	(149)	(2)
Impact on insurance margin	(18.8%)	(0.7%)	-	(0.2%)	(9.4%)	(0.1%)

Working claims experience was higher than expected, predominantly in the home owners, home contents, private motor and commercial motor portfolios, with the increased activity evident in 1H17 continuing into 2H17. Contributory factors included:

- Increased vehicle density on the roads, owing to higher tourist numbers and a growing population on the back of record net immigration, as well as the influence of lower fuel prices;
- Higher repair costs due to enhanced technology in motor vehicles;
- Increased repair volumes exacerbating the effect of the skills shortage across New Zealand's collision repair industry;
- Higher compliance costs as an increasing number of car manufacturers mandate adherence to repair specifications for warranty compliance;
- An increase in the cost of property construction owing to the Health and Safety requirements introduced in late 2015;
- A higher number of home owners' claims involving damage from methamphetamine contamination;
- Wetter weather conditions; and
- Societal changes relating to ownership of consumables.

In addition, the commercial motor portfolio was impacted by an increase in the number of high value claims (>NZ\$50,000).

The New Zealand business is focused on action plans already in progress to address these trends, including targeted rate increases, the continued roll-out of increased excesses, internal claim process changes and supply chain initiatives contributing to an increase in the utilisation of IAG's approved repairer network. Addressing New Zealand's growing issue of methamphetamine contamination of homes, IAG has made policy changes specific to home claims relating to methamphetamine use and manufacture. These include fixed payout limits and minimum excess requirements.

Large claims (greater than NZ\$100,000) experience in FY17 was above both expectations and FY16. This was driven by the combination of a higher incidence of large claims and an increase in the average cost of large commercial and personal property fires.

CANTERBURY REBUILD

The settlement of claims associated with the FY11 Canterbury earthquake events continues to make sound progress. At 30 June 2017:

- Nearly NZ\$6.4bn of claim settlements had been completed;
- Over 97% of all claims by number had been fully settled;
- Over 98% of commercial claims had been fully settled; and
- Over 97% of residential claims had been settled, with the balance either in construction or negotiation for cash settlement.

During 2H17 IAG continued to receive new claims from the EQC as they tipped over the EQC cap of NZ\$100,000 plus GST, but at a diminishing rate. IAG's reserving position at the end of FY17 allows for further claims exceeding the EQC's cap.

Higher than expected working claims experience, across motor and home portfolios, throughout FY17

Nearly NZ\$6.4bn of FY11 earthquake claims now paid – over 97% of claims by number fully settled

9. NEW ZEALAND

The New Zealand business and the wider industry continue to work closely with the EQC on the remaining Canterbury earthquake claims. The Joint Accelerated Review Team (JART), led by IAG on behalf of the industry, has been working with the EQC to identify remaining over-cap properties from the EQC database. Results to date have provided greater granularity of information.

Remaining claims include those subject to dispute or litigation, high customer utilisation of independent expert advice and newly received over-cap claims from the EQC. It is IAG's expectation that finalisation of all residual claims will take several years given the complexity of these matters.

In 2H16 IAG acquired NZ\$600m of adverse development cover in respect of the February 2011 earthquake, which effectively increased IAG's cover for this event to NZ\$5bn. IAG's reserved position remains below the attachment point of this cover.

All earthquake settlement statistics exclude claims related to the Lumley business. These are managed by IAG but are subject to indemnities from the previous owner which result in no further financial exposure for IAG.

EXPENSES

New Zealand's reported expenses totalled \$429m in FY17, compared to \$433m in FY16. The lower expense outcome reflects the net effect of:

- Disciplined cost management and a strict focus on expense savings, allowing the business to absorb inflationary increases and costs associated with underlying business growth;
- Ongoing process streamlining and simplification to drive efficiencies; and
- A one-off NZ\$7m benefit from the winding up of an old defined benefit superannuation scheme, which was recognised in 1H17.

The reported commission expense of \$189m in FY17 was slightly higher than FY16 (\$181m), owing to improved intermediated business GWP growth, notably in 2H17.

The administration ratio improved to 14.5%, compared to 16.0% in FY16.

INSURANCE PROFIT

The New Zealand business produced an insurance profit of \$125m in FY17, compared to \$135m in FY16, translating to a reported insurance margin of 7.6% (FY16: 8.6%). The slightly lower outcome reflects the net effect of:

- Substantially higher net natural peril claim costs, notably from the Kaikoura earthquake in 1H17;
- Higher than expected working claim costs, predominantly in the personal lines and commercial motor books as a result of higher average claim costs and frequency;
- Challenging market conditions in the Business Division, especially during 1H17, where the focus remains on pricing and underwriting disciplines;
- A continued focus on disciplined expense management; and
- The absence of the NZ\$150m increase to risk margin for the February 2011 earthquake event, as recognised in FY16.

New Zealand continues to generate a strong underlying performance. While FY17 was impacted by a deterioration in working and large claim costs, as well as the cumulative effect of competitive pricing pressure in commercial lines in 1H17, solid progress has been made to address these trends. Steps taken include rate and excess increases, supply chain initiatives and internal claim process changes.

Strong cost control
resulting in improved
administration ratio

New Zealand continues to
generate strong underlying
profitability

9. NEW ZEALAND

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

	1H16	2H16	1H17	2H17	FY16	FY17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	(143)	(6)	-	(2)	(149)	(2)
Natural perils	(14)	(25)	(123)	(59)	(39)	(182)
Natural peril allowance	28	28	32	32	56	64
Reserve releases	(18.8%)	(0.7%)	-	(0.2%)	(9.4%)	(0.1%)
Natural perils	(1.8%)	(3.0%)	(14.8%)	(7.2%)	(2.5%)	(11.0%)
Natural peril allowance	3.7%	3.4%	3.8%	3.9%	3.6%	3.9%

MARKET REGULATION AND REFORM

The Reserve Bank of New Zealand (RBNZ) has commenced its review of the Insurance Prudential Supervision Act, to assess whether it is meeting its purposes and determine its alignment with international guidance and other domestic prudential regimes. The review is informed in part by a detailed assessment recently completed by the International Monetary Fund (IMF) of New Zealand's prudential regime against the Insurance Core Principles issued by the International Association of Insurance Supervisors. This review is expected to run through to 2018, with issues being considered including:

- The treatment of overseas insurers;
- Enforcement regimes;
- Distress management;
- Regulatory approvals;
- The roles of key officers and control functions; and
- Disclosures.

While the New Zealand fire and EQC levies are not included in IAG's reported numbers owing to their directly transferable nature (in contrast to equivalent levies in Australia), both are subject to increases in FY18.

The New Zealand Government has passed the Fire and Emergency New Zealand Act. The Act establishes a unified organisation combining urban and rural fire services and recognises emergency services' expanded functions including call-outs to accidents, natural disasters and medical emergencies. The Act also makes changes to the funding of the services through insurance premiums, with the fire levy rates increasing in July 2017 (see table below). Further changes to the levy, including extending it to include insurance on material damage (rather than just fire damage) and third party motor vehicle insurance, will come into force from 1 January 2019. These revisions will result in operational changes to systems and products.

Review of Insurance Prudential Supervision Act commenced by RBNZ

Increased fire levy rates from July 2017

New Zealand Fire Levy Rates		
Policy	Maximum Annual Levy	
	Previous	From 1 July 2017
Motor vehicle (below 3.5 tonnes)	Fixed sum of NZ\$6.08 (+GST)	Fixed sum of NZ\$8.45 (+GST)
Contents	Maximum of NZ\$15.20 (+GST) (calculated as NZ7.6¢ (+GST) per NZ\$100 of cover up to NZ\$20,000 of cover)	Maximum of NZ\$21.20 (+GST) (calculated as NZ10.6¢ (+GST) per NZ\$100 of cover up to NZ\$20,000 of cover)
Home	Maximum of NZ\$76.00 (+GST) (calculated as NZ7.6¢ (+GST) per NZ\$100 of cover up to NZ\$100,000 of cover)	Maximum of NZ\$106.00 (+GST) (calculated as NZ10.6¢ (+GST) per NZ\$100 of cover up to NZ\$100,000 of cover)

9. NEW ZEALAND

Progress continues to be made on 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 recommendations made by IAG and the local insurance industry.

Timeframes for this reform have yet to be finalised. The industry is expecting to receive an exposure draft of this reform package before legislation is introduced to Parliament, most likely in the first half of calendar 2018, after the General Election in September 2017. If implemented, it is expected the proposed EQC reforms will cause minimal change to revenue but require considerable operational change.

The New Zealand Government's 2017 Budget announced an increase in the EQC levy effective from 1 November 2017, which will result in operational changes to systems and products. This will see the levy increase as follows:

Earthquake Commission Levy Rates		
Policy	Maximum Annual Levy	
	Previous	From 1 November 2017
Contents	Maximum of NZ\$30 (+GST) (calculated as NZ15¢ (+GST) per NZ\$100 of cover up to NZ\$20,000 of cover)	Maximum of NZ\$40 (+GST) (calculated as NZ20¢ (+GST) per NZ\$100 of cover up to NZ\$20,000 of cover)
Home	Maximum of NZ\$150 (+GST) (calculated as NZ15¢ (+GST) per NZ\$100 of cover up to NZ\$100,000 of cover)	Maximum of NZ\$200 (+GST) (calculated as NZ20¢ (+GST) per NZ\$100 of cover up to NZ\$100,000 of cover)

The New Zealand Government is considering a review of the laws governing insurer conduct (an issue also raised in the IMF review). This follows the Financial Markets Authority's focus on conduct in its Strategic Risk Outlook and the publication of its Conduct Guide. A review will likely start after the General Election in September 2017 and follow completion on the legislative elements of the Financial Adviser reforms.

Other areas of regulatory reform expected to have an impact on the New Zealand environment include:

- Implementation of changes to financial advice and dispute resolution schemes; and
- A review of the Commerce Act in relation to misuse of market power, market studies and enforcement powers.

MARKET ENVIRONMENT AND OUTLOOK

The New Zealand economy remains sound with annual GDP growth of 3% for the year ended 31 March 2017. Underpinning this growth are record net immigration, strong tourism, optimistic business confidence and healthy consumer demand. These factors are expected to contribute to solid GDP growth of around 3% for the remainder of the current calendar year.

IAG's strategy in New Zealand remains one of:

- Maintaining its market-leading position by providing world-leading customer service; and
- Delivering strong underlying profitability by remaining focused on pricing and underwriting disciplines, alongside emphasis on expense management.

The New Zealand market is expected to remain competitive across both the Consumer and Business Divisions in FY18. IAG's priority is to meet customers' needs by providing a range of customer solutions that address both personal and business requirements in dynamic market conditions.

Continued progress on EQC reform, plus increased EQC levy from 1 November 2017

Underlying profitability expected to remain strong

9. NEW ZEALAND

GWP growth in FY18 is expected to improve on FY17, from a combination of both volume and rate growth across personal and commercial lines. Ongoing assessment of rates, particularly those for high risk regions such as Wellington and high risk industries, remains a priority.

The early weeks of 1H18 have seen a continuation of the adverse weather events experienced in 2H17, notably the heavy rain and flooding in parts of Canterbury and Otago in late July 2017. It remains premature to place a likely claim cost on this event, however the maximum exposure is NZ\$20m owing to the potential interaction with IAG's calendar 2017 aggregate cover.

The underlying profitability of the business is expected to remain strong.

10. ASIA

FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
Gross written premium	197	189	182	184	386	366
Gross earned premium	193	193	186	185	386	371
Reinsurance expense	(57)	(54)	(53)	(52)	(111)	(105)
Net earned premium	136	139	133	133	275	266
Net claims expense	(75)	(82)	(89)	(92)	(157)	(181)
Commission expense	(35)	(32)	(33)	(31)	(67)	(64)
Underwriting expense	(25)	(24)	(23)	(19)	(49)	(42)
Underwriting profit/(loss)	1	1	(12)	(9)	2	(21)
Investment income on technical reserves	2	3	5	4	5	9
Insurance profit/(loss)	3	4	(7)	(5)	7	(12)
Share of profit from associates	7	12	9	13	19	22
Total divisional result	10	16	2	8	26	10

FINANCIAL CONTRIBUTION BY COUNTRY

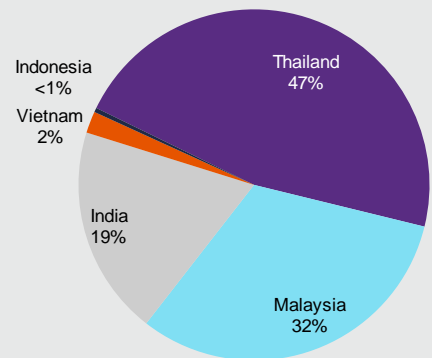
	Gross GWP		Proportional GWP		Earnings Contribution	
	FY16 A\$m	FY17 A\$m	FY16 A\$m	FY17 A\$m	FY16 A\$m	FY17 A\$m
Thailand	362	348	362	348	23	(2)
Malaysia	521	484	255	237	40	28
Established markets	883	832	617	585	63	26
India	447	553	116	144	(4)	14
Vietnam	17	15	17	15	(1)	(1)
Indonesia	7	3	7	3	(1)	(4)
Developing markets	471	571	140	162	(6)	9
Total Asian operations	1,354	1,403	757	747	57	35
Support and development costs	n/a	n/a	n/a	n/a	(31)	(25)
Total divisional result	1,354	1,403	757	747	26	10

10. ASIA

EXECUTIVE SUMMARY

- Participation in gross annual GWP pool of ~\$1.4bn across five countries
- Flat proportional GWP of \$747m - strong growth in India countered by challenging environment in Thailand and Malaysia
- Lower earnings contributions from Thailand and Malaysia, from a combination of increased competition in motor and higher claim costs
- Move into profit by India, driven by portfolio remediation and tighter expense management
- Lower overall divisional profit of \$10m (FY16: \$26m)
- FY18 focus on restoring margins in Thailand and Malaysia - nearly 80% of ~\$800m Asian investment

Asia Proportional GWP FY17



DIVISIONAL OVERVIEW

IAG has established a presence in five Asian markets: Thailand, Malaysia, India, Vietnam and Indonesia. The future development of IAG's Asia business is expected to be driven by:

- Organic growth prospects presented by each market;
- Superior customer and partner experiences;
- Industry consolidation opportunities in Thailand and Malaysia;
- Ownership dial-up opportunities when appropriate, in Malaysia and India;
- Pursuit of adjacent business opportunities (e.g. takaful in Malaysia); and
- Improved returns on the back of increased scale and capability.

As at 30 June 2017, IAG's investment in Asia was \$807m, of which \$637m (79%) was in Thailand and Malaysia. At 30 June 2016 the equivalent investment was \$797m, with the net movement since then reflecting the combined effect of:

- Retained earnings in FY17;
- Negative foreign exchange movements;
- A small capital injection in India; and
- Capital repatriation in the form of a dividend from Thailand (\$11m).

The division contributed a total profit of \$10m in FY17, including shares of associates, compared to a \$26m profit in FY16. The lower result reflects the combination of:

- The move to a small loss in Thailand, driven by a higher claims ratio and increased competitive pressures in motor;
- A lower margin from Malaysia in the face of soft new car sales and increased competition in motor ahead of detariffication;
- A move into profit by India on the back of better risk selection, coupled with improved expense management;
- A small loss in Vietnam, consistent with FY16;
- An increased loss from Indonesia, as it explores the development of a digital model;
- A favourable net movement in mark-to-market valuations of investments in Malaysia and India; and
- Lower regional support and development costs.

Presence in five Asian markets

Net investment of ~\$800m in Asia

10. ASIA

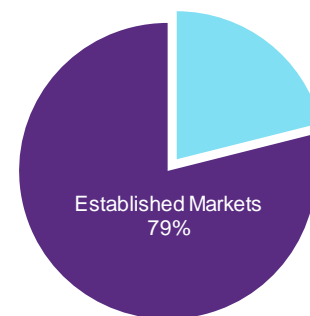
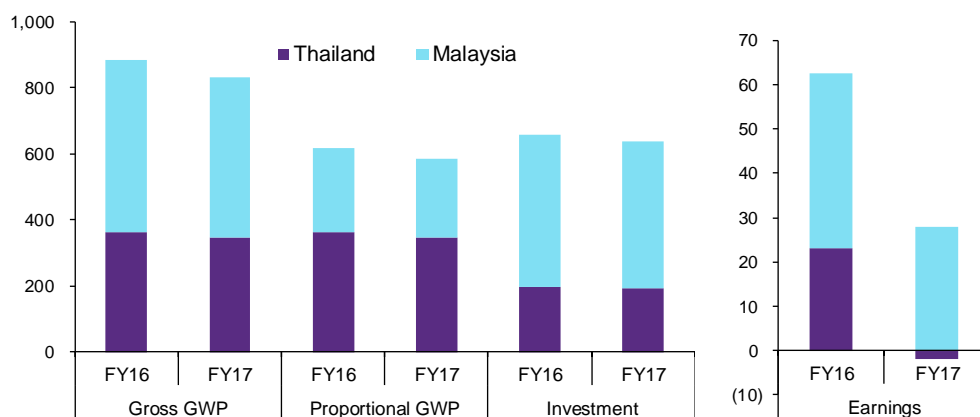
IAG has interests in Asian businesses whose combined annualised GWP pool is of the order of \$1.4bn. In FY17, IAG's proportional share of that pool amounted to \$747m. This broadly flat outcome, compared to FY16, contained:

- Continued strong growth in India;
- Lower GWP in Thailand, influenced by slow new car sales, intensified competition in motor and a planned reduction of large commercial business;
- Flat growth in Malaysia, on the back of a decline in new car sales, increased competition and lower average premiums; and
- An adverse foreign exchange impact. On a constant currency basis, proportional GWP would have increased by 2.6%, compared to FY16.

Flat proportional GWP, as strong growth in India offset by lower Thai input and adverse FX effect

ESTABLISHED MARKETS (A\$M)

% ASIAN INVESTMENT



THAILAND

Market Presence

IAG holds a 98.6% beneficial interest in Safety Insurance (Safety), a predominantly motor insurer (~80% of GWP). The business operates under a single licence while using two brands: Safety (personal lines) and NZI (large commercial risks). Safety is the third largest motor insurer in Thailand, with an extensive distribution network and a strong reputation for customer service.

Operating Performance

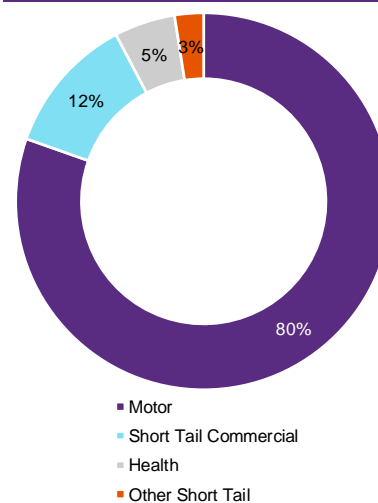
The Thai business reported a local currency GWP decline of 1.8% in FY17, with a near-flat performance in 2H17 over the comparable period. This outcome was influenced by:

- Weaker than expected growth in new vehicle sales;
- Intensified price competition in the motor segment; and
- Significantly lower commercial volumes following a planned reduction in exposure to selected segments.

Reported GWP contracted by 3.9% in FY17, compared to FY16, following an unfavourable foreign exchange effect.

Thailand reported an insurance loss of \$2m, compared to a profit of \$23m in FY16. The significantly weaker outcome was driven by a deterioration in the loss ratio, which was characterised by:

SAFETY – FY17 GWP BY CLASS



Weaker Thai GWP reflecting intensified price competition and adverse FX effect

10. ASIA

- A higher number of large losses in the engineering and fire classes;
- Significantly lower prior period reserve releases;
- A regulatory-led increase in compulsory motor claim limits, with no commensurate premium increase; and
- Increased natural peril-related net claim costs, of \$6m, associated with flood incidents in 2H17 and a prolonged wet season.

Small insurance loss, driven by deterioration in claims line

In May 2017, a dividend of approximately \$11m was paid to IAG.

SAFETY FINANCIAL PERFORMANCE	1H16	2H16	1H17	2H17	FY16	FY17
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	184	178	173	175	362	348
Gross earned premium	178	180	175	175	358	350
Reinsurance expense	(54)	(51)	(51)	(50)	(105)	(101)
Net earned premium	124	129	124	125	253	249
Net claims expense	(72)	(79)	(86)	(90)	(151)	(176)
Commission expense	(30)	(29)	(30)	(28)	(59)	(58)
Underwriting expense	(13)	(10)	(12)	(12)	(23)	(24)
Underwriting profit/(loss)	9	11	(4)	(5)	20	(9)
Investment income on technical reserves	1	2	4	3	3	7
Insurance profit/(loss)	10	13	-	(2)	23	(2)
Insurance Ratios	1H16	2H16	1H17	2H17	FY16	FY17
Loss ratio	58.1%	61.1%	69.4%	72.0%	59.6%	70.7%
Expense ratio	34.7%	30.2%	33.9%	32.0%	32.4%	32.9%
Commission ratio	24.2%	22.3%	24.2%	22.4%	23.2%	23.3%
Administration ratio	10.5%	7.9%	9.7%	9.6%	9.2%	9.6%
Combined ratio	92.8%	91.3%	103.3%	104.0%	92.0%	103.6%
Insurance margin	8.1%	10.4%	-	(1.6%)	9.2%	(0.8%)

Market Environment, Regulation and Reform

The long term outlook for Thailand is positive. The Thai economy expanded by 3.3% in the first three months of 2017, compared to the same period in 2016, boosted by recovering exports, improved consumer sentiment and higher rural demand from increased income. The Central Bank anticipates the economy will grow by between 3.2% and 3.8% in 2017 on the back of stronger external demand, increasing domestic expenditure and planned government investment.

The Thai general insurance industry grew by 1.3% in the first three months of calendar 2017, and is expected to expand further driven by improving economic conditions and increasing income levels.

MALAYSIA

Market Presence

IAG holds a 49% interest in AmGeneral Holdings Berhad (AmGeneral), the general insurance arm of AmBank Group, Malaysia's sixth largest bank. Established in 2006, the joint venture became the largest motor insurer in Malaysia following the acquisition of Kurnia Insurans (Malaysia) Berhad (Kurnia) in 2012. The combined business operates as AmGeneral Insurance Berhad using two market-leading brands, AmAssurance and Kurnia.

10. ASIA

Operating Performance

AmGeneral reported a marginal contraction in local currency GWP in FY17, of 0.4%. This reflects the effects of declining new car sales and increasing market competition. After inclusion of an adverse foreign exchange translation effect, reported GWP declined by 7.1%.

The Malaysian business continues to pursue profitable growth from its strong agency distribution network and by enhancing its customer and intermediary experience proposition, including:

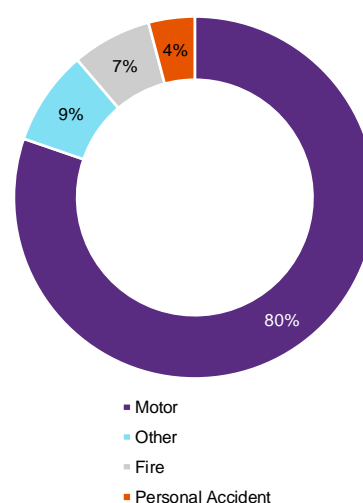
- The implementation of a customer satisfaction measurement and feedback loop to reduce irritants and drive enhanced experience;
- The development and implementation of digital sales technology; and
- An intense focus on motor pricing, underwriting and risk selection in preparation for detariffication of the motor market.

While AmGeneral produced an improved second half result, its FY17 insurance margin contracted to 8.9% (FY16: 16.1%), reflecting the combination of:

- Reduced net earned premium on the back of a reduction in average premiums for motor insurance;
- An increased loss ratio of 64.6% (FY16: 60.7%), largely driven by higher repair costs from motor franchise partnerships, changes to motor business mix and the adverse impact of the ringgit's depreciation on replacement car parts;
- Increased expenses relating to marketing and sales campaigns; and
- Higher administration expenses, particularly those associated with motor detariffication and GST implementation.

Flat local currency GWP and lower margin from AmGeneral, as market competition increases

AMGENERAL – FY17 GWP BY CLASS



AMGENERAL	1H16	2H16	1H17	2H17	FY16	FY17
FINANCIAL PERFORMANCE	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	252	269	245	239	521	484
Gross earned premium	257	258	251	238	515	489
Reinsurance expense	(19)	(23)	(20)	(23)	(42)	(43)
Net earned premium	238	235	231	215	473	446
Net claims expense	(153)	(134)	(154)	(134)	(287)	(288)
Commission expense	(27)	(27)	(28)	(25)	(54)	(53)
Underwriting expense	(39)	(59)	(49)	(49)	(98)	(98)
Underwriting profit	19	15	-	7	34	7
Investment income on technical reserves	19	23	15	18	42	33
Insurance profit	38	38	15	25	76	40
Net profit after tax	34	47	20	37	81	57
Net profit after tax - IAG's share (49%)	17	23	10	18	40	28
Insurance Ratios	1H16	2H16	1H17	2H17	FY16	FY17
Loss ratio	64.3%	57.0%	66.7%	62.4%	60.7%	64.6%
Expense ratio	27.7%	36.6%	33.3%	34.5%	32.1%	33.9%
Commission ratio	11.3%	11.5%	12.1%	11.7%	11.4%	11.9%
Administration ratio	16.4%	25.1%	21.2%	22.8%	20.7%	22.0%
Combined ratio	92.0%	93.6%	100.0%	96.9%	92.8%	98.5%
Insurance margin	16.0%	16.2%	6.5%	11.5%	16.1%	8.9%

AmGeneral's net profit after tax in FY17 benefited from the profit realised on the disposal of properties and a favourable adjustment to prior year tax provisions.

10. ASIA

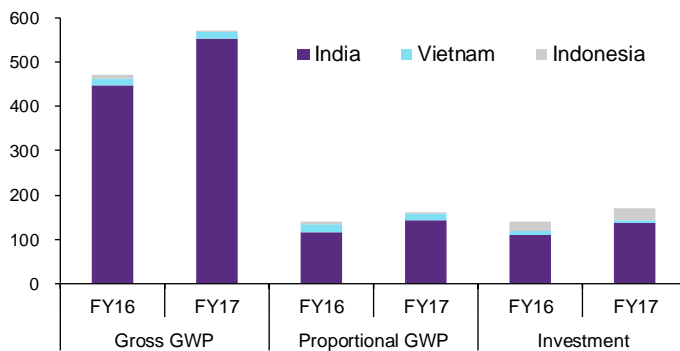
Market Environment, Regulation and Reform

The Malaysian economy expanded by 5.6% in the first three months of fiscal 2017, led by strong domestic demand, higher exports and a rise in manufacturing activity. Private consumption is anticipated to remain strong, supported by wage and employment growth, with additional impetus from government measures to spur disposable household income. The government anticipates growth of 4.3% to 4.8% in 2017.

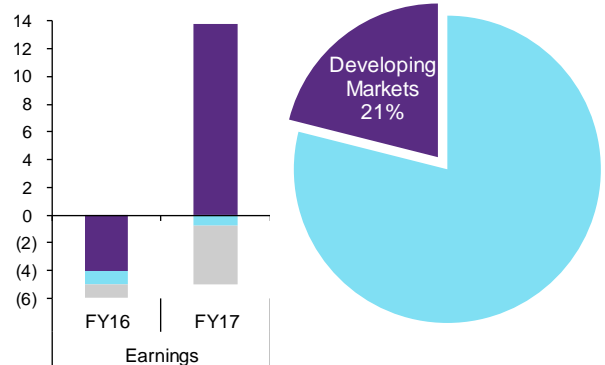
The Malaysian general insurance industry generated modest growth of 0.9% in calendar 2016. The operating landscape is expected to evolve with regulatory-driven liberalisation over the next few years, following the removal of tariffed rates for motor and fire policies from 1 July 2017, albeit with some restrictions applied. AmGeneral is well-prepared for this reform.

Moderate GWP growth expected in Malaysia, following commencement of motor market detariffication in July 2017

DEVELOPING MARKETS (A\$M)



% ASIAN INVESTMENT



INDIA

Market Presence

IAG holds 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 continues to build its portfolio in the retail, SME and corporate insurance segments across India, facilitated by access to SBI's extensive bancassurance channel.

Following the March 2015 insurance law amendment to the foreign direct investment limit, IAG has a right to increase its ownership of SBI General to 49% and continues to explore the opportunity to exercise this option.

Operating Performance

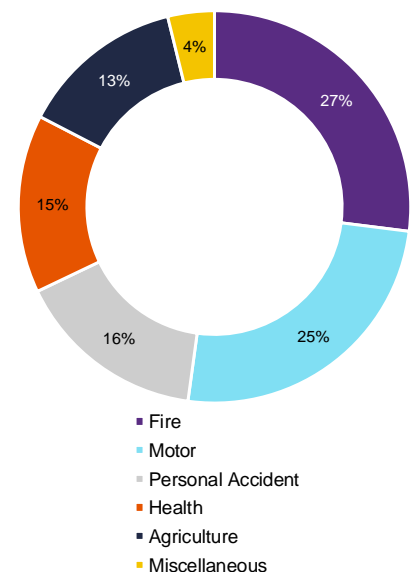
SBI General has continued to grow strongly, generating FY17 GWP equivalent to \$553m (IAG's 26% share being \$144m), an increase of nearly 24% compared to FY16. Local currency GWP growth was over 28%.

FY17 GWP growth was driven by increased crop insurance volumes, as well as an uplift in health insurance and personal accident sales through the SBI bank channel. Motor GWP was flat, as portfolio remediation activity reduced loss-making motor business in the agency channel.

SBI General is now the twelfth largest general insurer in India, with an overall market share of around 2.4% as at 30 April 2017.

Continued strong GWP growth from SBI General

SBI GENERAL – FY17 GWP BY CLASS



10. ASIA

SBI General reported an insurance profit of \$29m in FY17, compared to an insurance loss of \$29m in FY16. This move into profit comprised the net effect of:

- An improved loss ratio arising from motor portfolio remediation;
- A favourable monsoon season in FY17, reducing seasonal losses;
- An improved expense ratio resulting from tightened cost control; and
- Higher investment income bolstered by business growth and favourable mark-to-market movements in technical reserves income.

SBI General's net profit after tax was \$53m (FY16: loss of \$14m), of which IAG's share is \$14m. This was aided by significantly higher investment income on shareholders' funds.

At the end of FY17, SBI General had 75 products in the market, 110 dedicated branches across India and nearly 2,700 employees.

SBI General's move into profit supported by improved claim and expense outcomes

SBI GENERAL	1H16	2H16	1H17	2H17	FY16	FY17
FINANCIAL PERFORMANCE	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	197	250	254	299	447	553
Gross earned premium	173	194	274	250	367	524
Reinsurance expense	(46)	(55)	(124)	(95)	(101)	(219)
Net earned premium	127	139	150	155	266	305
Net claims expense	(104)	(114)	(116)	(106)	(218)	(222)
Commission and underwriting expenses	(59)	(69)	(63)	(52)	(128)	(115)
Underwriting (loss)	(36)	(44)	(29)	(3)	(80)	(32)
Investment income on technical reserves	22	29	37	24	51	61
Insurance profit/(loss)	(14)	(15)	8	21	(29)	29
Net profit/(loss) after tax	(7)	(7)	21	32	(14)	53
Net profit/(loss) after tax - IAG's share (26%)	(2)	(2)	6	8	(4)	14
Insurance Ratios	1H16	2H16	1H17	2H17	FY16	FY17
Loss ratio	81.9%	82.0%	77.3%	68.5%	82.0%	72.9%
Expense ratio	46.4%	49.7%	42.0%	33.6%	48.1%	37.7%
Combined ratio	128.3%	131.7%	119.3%	102.1%	130.1%	110.6%
Insurance margin	(11.0%)	(10.8%)	5.3%	13.4%	(10.9%)	9.4%

Market Environment, Regulation and Reform

The Indian economy expanded by 7.1% in the fiscal year ending 31 March 2017, led by strong household consumption, robust rural demand and higher government spending, amid temporary disruption in the private sector following the government's demonetisation move. The economy is expected to remain on a strong footing, backed by business-oriented reforms, such as GST implementation from 1 July 2017.

The long term growth prospects for the general insurance market in India remain strong. The industry grew by 32% in fiscal 2017. Growth was broad-based, driven by the government-backed agricultural insurance schemes, health insurance on the back of rising medical expenses and increased penetration of motor insurance. Private insurers saw faster growth of 35% in GWP compared to government-owned insurers' growth of 25%. The industry expects growth to remain strong in fiscal 2018, driven by the motor, health and agricultural segments.

The regulatory framework continues to evolve rapidly, led by the government's focus on market reforms, a broader social agenda and an emphasis on majority Indian ownership and control.

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

10. ASIA

VIETNAM

Market Presence

IAG holds 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 reported a reduction in local currency GWP of 9% in FY17, reflecting lower motor volumes. An insurance loss of \$1m was reported for the year, in line with FY16. The result included an increase in the loss ratio, which was in line with expectations following the expiration of the earnings contribution from the run-off loan protection portfolio.

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.

Market Environment, Regulation and Reform

The Vietnamese economy grew by 5.1% in the first three months of calendar 2017, supported by exports and foreign direct investment. This was in spite of unfavourable weather conditions impacting production. Vietnam's economy has transformed into a manufacturing hub for electronic goods in the past few years, with wage cost competitiveness key in attracting capital. The Vietnamese government has set a target of 6.8% for GDP growth in 2017, supported by strength in the service sector, tourism and investment activity.

The long term outlook for Vietnam's non-life insurance sector remains positive, with a low insurance penetration rate and a growing middle class. Motor represents only 33% of industry GWP, which is significantly lower than most other South East Asian countries. The market continues to be dominated by the underwriting of large-scale commercial risks in the near term, while low incomes and the constrained purchasing power of households hinder growth in the personal lines segment.

INDONESIA

Market Presence

IAG holds 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 build a business in Indonesia.

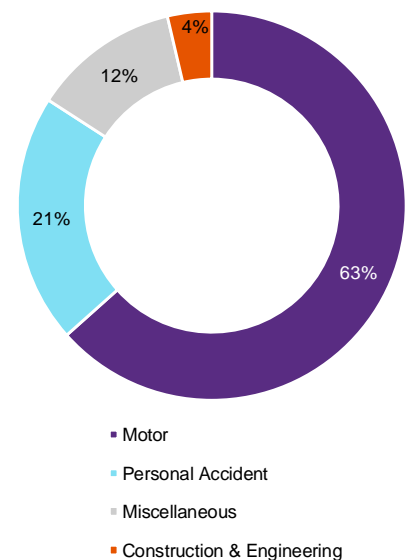
IAG is exploring a strategy in Indonesia to develop a digital-led business model focused on affinity and direct-to-consumer distribution.

Operating Performance

In FY17, Parolamas reported lower GWP of \$3m and an insurance loss of \$4m. The lower GWP was as expected and reflects the cessation of traditional business lines and distribution arrangements that are outside IAG's risk appetite. In FY17, the business rationalised its branch network and improved underwriting and claim controls, as well as implementing a robust risk and governance framework.

A small operating loss in Vietnam

AAA ASSURANCE – FY17 GWP BY CLASS



Exploration of a digital-led business model for Indonesia

10. ASIA

Market Environment, Regulation and Reform

The Indonesian economy grew by 5.0% in the first three months of calendar 2017, and the government anticipates a similar outcome for the full year. Growth is being supported by increased private consumption, government spending and a recovery in external demand.

The General Insurance Association of Indonesia expects the industry to expand by 7.5% in 2017, supported by government infrastructure developments and resumption of growth in motor vehicle sales. 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 regulatory operating environment.

REGIONAL SUPPORT AND DEVELOPMENT COSTS

Regional support and development expenditure is deployed to support IAG's operational footprint in Asia. This includes a wide range of activities focused on divisional governance, in-country capability transfer, risk management oversight and investment in regional development programs.

Total regional support and development costs for FY17, of \$25m, were considerably lower than the prior year (\$31m). This reflected a revised oversight and development model which was put in place to achieve greater cost efficiency. Further efficiencies are expected to be achieved in FY18.

OUTLOOK

Emphasis on restoring underwriting margins in the established markets of Thailand and Malaysia to historical levels is the primary focus for FY18. GWP on a proportional basis is expected to register moderate growth (on a constant exchange rate basis), amid an expected soft pricing environment in increasingly competitive markets across the region, supplemented by continuing strong growth in India.

Thailand will continue to focus on underwriting discipline in an environment of intense market competition and subdued new vehicle sales. The business will seek to diversify its portfolio by implementing a redefined non-motor and distribution strategy in FY18.

In Malaysia, AmGeneral will focus primarily on the implementation of risk-based pricing, portfolio optimisation and claims management efficiency as it seeks to maintain its leading position in motor while the market is subject to detariffication. GWP growth is expected to remain under pressure in FY18 as the market responds to liberalised pricing.

Growth from SBI General in India is expected to remain strong as it continues to maximise opportunities in profitable bank channel segments. The business is expected to record another favourable result led by a continued focus on portfolio management and expense control.

Work is underway in Vietnam to clearly define AAA's strategic position and future direction, and to drive operational improvements.

The emphasis in Indonesia will be to progress the digitally-led business model with a series of test-and-learn initiatives with affinity partnerships and customer groups.

Strong long term economic and industry growth outlook in Indonesia

New oversight and development model delivering lower regional costs

Restoration of underlying profitability levels in key markets will be main focus in FY18

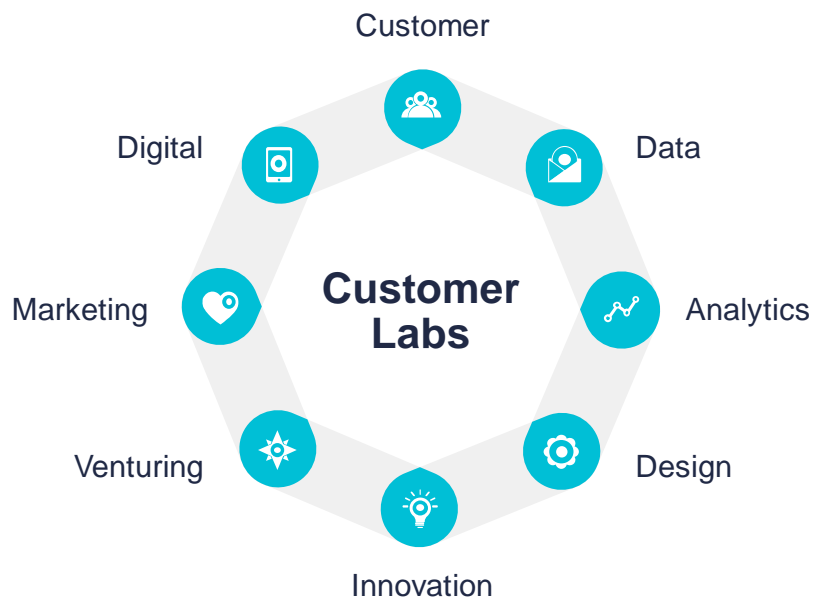
11. CUSTOMER LABS

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, human centred design and new business incubation and venturing. It is also responsible for digital innovation across IAG, including the identification and harnessing of disruptive technology and building digital apps and ecosystems, and focuses on deeply understanding customers and their needs to help create new and improved experiences in an increasingly digital world.

Customer Labs

Bringing capability together to shape customer-experience strategy and innovation



FY17 ACTIVITIES	FY18 PRIORITIES
CUSTOMER & MARKETING	
<ul style="list-style-type: none"> Defining a world-leading customer experience and building strategies to reflect that, including the creation of organisation-wide journey mapping 	<ul style="list-style-type: none"> Expanding customer understanding via insights and research, to direct improvement programs and targeted investments to improve the customer journey
<ul style="list-style-type: none"> Developed and deployed a customer model that leverages deep data-driven insights and aligns them to brand and product propositions 	<ul style="list-style-type: none"> Bringing to life a reimagined customer model by designing and deploying Customer Value Propositions that help build deeper and more enduring customer relationships
<ul style="list-style-type: none"> Building a customer-led, data-driven culture by aligning customer measurement, introducing customer training and education programs for all staff, and making data open and accessible 	<ul style="list-style-type: none"> Extending customer measurement programs to focus on, and continually measure, customer touchpoints
<ul style="list-style-type: none"> Deploying a marketing automation system that allows IAG to interact with its customers directly 	<ul style="list-style-type: none"> Creating personalised experiences across all channels by leveraging data and analytics
<ul style="list-style-type: none"> Developing marketing media attribution and measurement tools 	
<ul style="list-style-type: none"> Bringing search in-house to drive greater value 	

11. CUSTOMER LABS

FY17 ACTIVITIES	FY18 PRIORITIES
DATA & ANALYTICS	
<ul style="list-style-type: none"> Leveraging IAG's single source of truth for data to allow an immediate understanding of customer actions across all channels 	<ul style="list-style-type: none"> Continuing to leverage IAG's single source of truth for data by connecting third party and real time information to the core data asset
<ul style="list-style-type: none"> Personalising the customer experience through deep analytics to better understand customer behaviour 	<ul style="list-style-type: none"> Developing cognitive capability in personalising the customer experience
<ul style="list-style-type: none"> Developing and deploying a fraud analytics model that identifies fraudulent behaviour and helps improve response and claims effectiveness 	<ul style="list-style-type: none"> Developing predictive fraud capability that leverages IAG's fraud analytics model to support risk selection, shifting from detection at point of claim to prevention at point of sale
<ul style="list-style-type: none"> Building on IAG's world-class pricing capability by improving the capability and efficiency of pricing approaches and models, including automation, leveraging advanced analytics techniques 	<ul style="list-style-type: none"> Continuing to build on IAG's world-class pricing capability by further improving pricing approaches through intelligent learning systems
<ul style="list-style-type: none"> Identifying opportunities to work more collaboratively with others in the areas of customer experience and the use of data and information 	
<ul style="list-style-type: none"> Building a culture of experimentation and continuous in-market testing, through trials where offers can be automatically adjusted depending on customer take-up, as well as improved through cognitive computing techniques 	
DIGITAL	
<ul style="list-style-type: none"> The introduction of a truly digital way of working across IAG, embracing lean manufacturing principles, design thinking concepts and agile and continuous delivery methods 	<ul style="list-style-type: none"> Accelerating the digital transformation of IAG
<ul style="list-style-type: none"> Introducing leveraged dedicated digital delivery teams for each division to enhance digital capability and customer experience 	<ul style="list-style-type: none"> Personalising the digital offering for customers by leveraging customer insights and implementing in alignment with brand propositions
<ul style="list-style-type: none"> Developing API (application program interface) and mobile-first architecture, combined with the implementation of social coding to co-innovate and reuse technology within IAG 	<ul style="list-style-type: none"> Developing APIs to accelerate the ability to deliver improved in-market experiences and build digital ecosystems
<ul style="list-style-type: none"> Scaling digital infrastructure, including platforms to accelerate learning and performance improvement 	<ul style="list-style-type: none"> Further scaling of digital infrastructure
<ul style="list-style-type: none"> Working with risk, regulatory affairs and security teams to enable more extensive use of cloud services, with the goal of utilising those services for more scalable and cost effective infrastructure 	<ul style="list-style-type: none"> Extending the use of cloud services for more scalable and cost effective infrastructure

11. CUSTOMER LABS

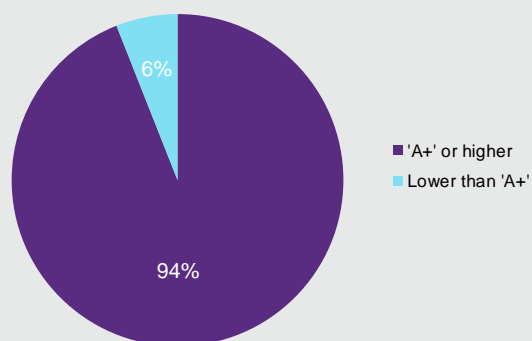
FY17 ACTIVITIES	FY18 PRIORITIES
AMBIATA	
<ul style="list-style-type: none"> • Ambiatata is an Artificial Intelligence Software as a Service company that provides organisations with the intelligent analytical layer that connects their data asset to customers - it places measurement and model-build in the hands of a corporation's data scientists and cognitive intelligence at the centre of an organisation's decision-making 	<ul style="list-style-type: none"> • With increased adoption of its service across leading financial service companies and retailers in Asia Pacific in FY17, Ambiatata's focus in FY18 will be on continued revenue growth and establishing strategic distribution partnerships in other regions
<ul style="list-style-type: none"> • Ambiatata's product has been deployed in a number of top 20 ASX organisations with new customer growth in FY17 in Australia, Asia and the US 	<ul style="list-style-type: none"> • Leveraging Ambiatata's artificial intelligence capabilities across IAG through exploration of intelligent agents, machine-learning techniques and computer visioning
INNOVATION & VENTURING	
<ul style="list-style-type: none"> • Launching new digital services that leverage existing capability in an innovative way, while harnessing emerging technologies including the 'internet of things', blockchain and drones 	<ul style="list-style-type: none"> • Launching new digital services and insurance products in an innovative way, while harnessing emerging technologies
<ul style="list-style-type: none"> • Leveraging research institutions and partners to co-innovate 	<ul style="list-style-type: none"> • Deepening relationships with research institutions and partners to co-innovate
<ul style="list-style-type: none"> • Launching new on-demand insurance products and services, including Poncho 	<ul style="list-style-type: none"> • Growing IAG's innovation capability to co-create new products and services with the InsurTech community through the Firemark Labs hubs in Singapore and Sydney
<ul style="list-style-type: none"> • Established IAG Firemark Ventures with committed funding of \$75m to invest in, and partner with, emerging businesses that have the potential to disrupt the insurance value chain 	<ul style="list-style-type: none"> • Partnering with emerging businesses that have the potential to disrupt the insurance value chain through investment via Firemark Ventures
<ul style="list-style-type: none"> • Established the Firemark Labs incubation hub in Sydney to allow IAG's internal innovators to collaborate with external capability, including businesses invested in through IAG Firemark Ventures, to rapidly build and scale new products 	
<ul style="list-style-type: none"> • Established the Firemark Labs innovation hub in Singapore that is focusing on leveraging the InsurTech community to co-create new products and services 	

12. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of IAG's overall approach to capital management
- Catastrophe program renewed 1 January 2017 with similar structure to prior years
- Main gross catastrophe tower of up to \$7bn, placed to 80% to reflect Berkshire Hathaway quota share
- Additional \$1bn of gross protection (to \$8bn) secured for 19-month period from 1 June 2017
- Maximum event retention (MER) of \$20m (post-quota share) at 30 June 2017, reflecting aggregate cover
- Natural perils cover of \$104m in excess of \$720m (post-quota share) purchased for FY18
- Further quota share opportunities being explored

Counter-Party Risk - 2017 Catastrophe Program



REINSURANCE STRATEGY

IAG's reinsurance program 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 at 1 January 2017 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 business. 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. IAG's small business in Indonesia places reinsurance 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.

MARKET ENVIRONMENT

While the overall cost of major global catastrophe events in 2016 was higher than in recent years, the reinsurance market has shown limited signs of strengthening. The reduction in returns to reinsurers due to lower rates has resulted in some reinsurers reducing their capacity. However, market conditions across all classes of business have remained favourable for purchasers of reinsurance. The contraction in the quantum of recent rate reductions is expected to continue over the coming year.

WHOLE-OF-ACCOUNT QUOTA SHARE

As part of its 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. This quota share serves to reduce IAG's earnings volatility and has materially reduced the amount of reinsurance, in particular catastrophe cover, required to be sourced from the third party market.

Reinsurance is a key part of IAG's overall approach to capital management

Reinsurance rating environment is expected to stabilise

Berkshire Hathaway quota share reduces IAG's catastrophe cover needs by 20%

12. REINSURANCE

As part of its broader capital management program, IAG is currently exploring other quota share opportunities with its counterparties.

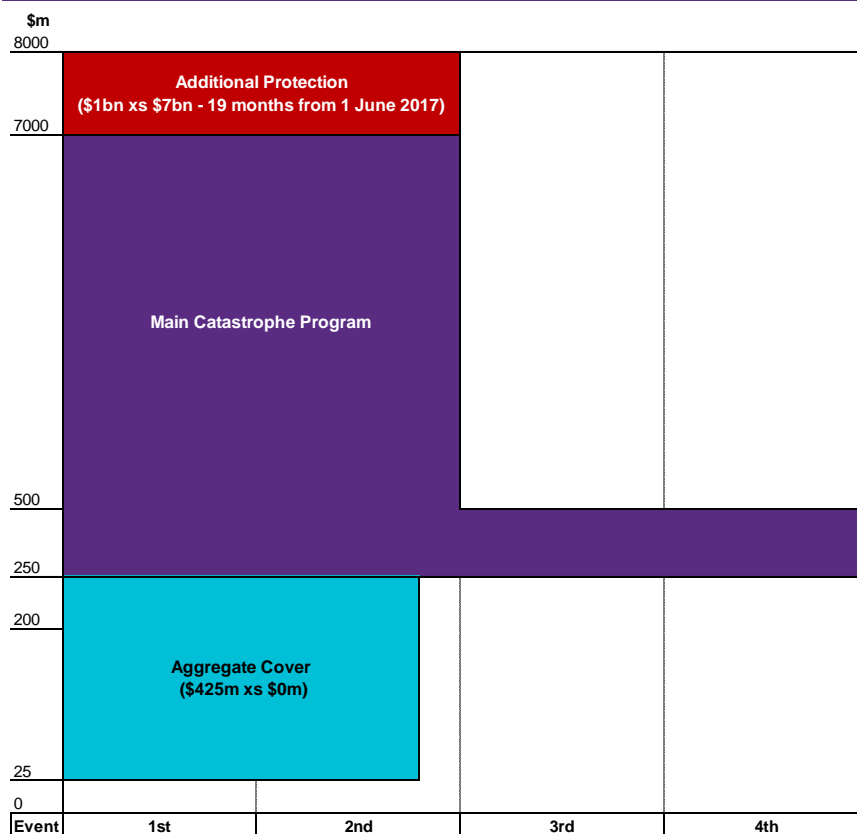
CATASTROPHE COVER

The majority of 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.

At 1 January 2017 IAG purchased catastrophe reinsurance cover that provides gross protection of up to \$7bn. This was placed to the extent of 80%, after allowance for the 20% quota share arrangement with Berkshire Hathaway. The 2017 catastrophe reinsurance program also contains an increased multi-year component, which involves several counterparties. An additional \$1bn of gross protection for a 19-month period was purchased at 1 June 2017, increasing the gross catastrophe limit purchased to \$8bn.

Combined gross catastrophe cover of up to \$8bn, placed to 80% to reflect quota share

GROSS CATASTROPHE REINSURANCE – AS AT 30 JUNE 2017



At renewal on 1 January 2017 the integrated calendar catastrophe program comprised the following key components:

- A main 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 program (\$200m excess of \$200m, post-quota share); and
- An increased aggregate sideways cover that reduces the cost of a second event to \$125m (\$100m post-quota share) and a subsequent event to \$25m (\$20m post-quota share). This cover provides protection of \$475m excess of \$325m (\$380m excess of \$260m, 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).

12. REINSURANCE

As at 30 June 2017, the deductible in respect of the aggregate cover had been fully eroded, and approximately \$50m of the \$475m available gross cover had been utilised, leaving \$425m of protection available in 1H18 (~\$340m post quota share).

As a result, the combination of all catastrophe covers in place at 30 June 2017 results in post-quota share first event retentions of \$20m for Australia, NZ\$20m for New Zealand, \$20m for Thailand and Malaysia, and approximately \$1m for Vietnam and Indonesia.

MER of \$20m at 30 June 2017, post-quota share

FY18 NATURAL PERILS COVER

IAG's natural perils allowance for FY18 has been set at \$680m, which is identical to that for FY17. This takes into account the status of the calendar 2017 aggregate cover, which is active at 30 June 2017, and also reflects modest anticipated exposure growth, business mix changes and increased peril activity. For the 12 months to 30 June 2018, IAG has purchased catastrophe protection of \$104m excess of \$720m (post-quota share), attaching \$40m higher than the FY18 natural perils allowance.

FY18-specific perils cover providing \$104m of protection above \$720m, post-quota share

CTP QUOTA SHARE

IAG has a quota share agreement with Munich Re in respect of 30% of its CTP book for a minimum four-year period from 1 July 2016, with an option for a further two years. The agreement covers all CTP written in NSW, the ACT and South Australia. 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.

30% CTP quota share agreement until at least 30 June 2020

RUN-OFF PORTFOLIO PROTECTION

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

- 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, which mainly relates to liability and workers' compensation risks written by CGU in the 1970s and the 1980s, where IAG continues to manage all related claims.

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

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect it in all territories in which it underwrites. The majority of these were favourably renewed at 30 June 2017, with placement 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 key reinsurances as at 30 June 2017 are:

- 94% of limits placed with 'A+' or higher rated entities for the calendar 2017 property catastrophe program; and
- 100% of limits placed with 'A+' or higher rated entities for the casualty program.

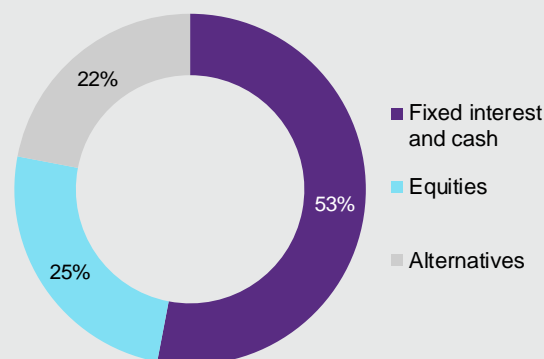
Strong counter-party risk profile maintained

13. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of \$12.1bn as at 30 June 2017
- Overall investment allocation remains conservatively positioned
- Technical reserves of \$8.1bn invested in fixed interest and cash
- Shareholders' funds of \$4.0bn – growth asset weighting of 47%
- Sound investment return on technical reserves
- Higher shareholders' funds return influenced by stronger equity market performance
- Strong credit quality maintained: 73% 'AA' or higher

Shareholders' Funds Mix



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 nearly 85% of total investments in fixed interest and cash as at 30 June 2017. Technical reserves were entirely invested in fixed interest and cash, compared to 53% for shareholders' funds.

Distinct investment strategies for technical reserves and shareholders' funds

IAG's allocation to growth assets was 47% of shareholders' funds at 30 June 2017, compared to 48% at both 31 December 2016 and 30 June 2016. Within the growth asset allocation, alternative investments accounted for 22% of shareholders' funds.

GROUP INVESTMENT ASSETS

The Group's investments totalled \$12.1bn as at 30 June 2017, excluding investments held in joint ventures and associates, with over 67% represented by the technical reserves portfolio.

Total investments of \$12.1bn

The decrease in technical reserves since 31 December 2016 includes:

- Further progressive effect of the 20% quota share arrangement with Berkshire Hathaway in lowering related insurance liabilities; and
- The significant reserve releases recognised in 2H17.

GROUP INVESTMENT ASSETS	1H16 A\$bn	FY16 A\$bn	1H17 A\$bn	FY17 ¹ A\$bn
Technical reserves	9.7	8.7	8.3	8.1
Shareholders' funds	4.3	4.2	4.0	4.0
Total investment assets	14.0	12.9	12.3	12.1

¹Adjusted to reflect \$0.4bn post year-end transfer from technical reserves to shareholders' funds largely driven by reserve releases recognised late in FY17.

13. INVESTMENTS

ASSET ALLOCATION

Since 31 December 2016, the main change to asset allocation is a slightly higher weighting to equities within shareholders' funds, partly reflecting market performance, and a slightly lower allocation to alternatives.

Over 84% of investments in fixed interest and cash

GROUP ASSET ALLOCATION

	1H16	FY16	1H17	FY17
	%	%	%	%
SHAREHOLDERS' FUNDS				
Australian equities	16.6	8.5	7.8	8.0
International equities	8.8	17.1	16.7	17.2
Alternatives	22.1	22.2	23.5	21.9
Fixed interest and cash	52.5	52.2	52.0	52.9
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	5.1	2.8	2.6	2.6
International equities	2.7	5.7	5.5	5.7
Alternatives	6.7	7.3	7.7	7.3
Fixed interest and cash	85.5	84.2	84.2	84.4
Total	100.0	100.0	100.0	100.0

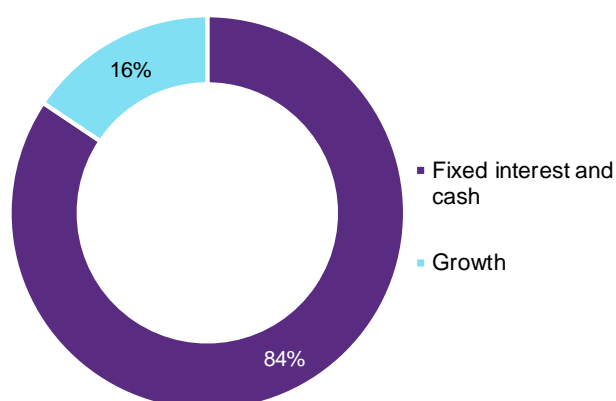
CREDIT QUALITY OF ASSETS

The credit quality of IAG's investment book remains strong, with approximately 73% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

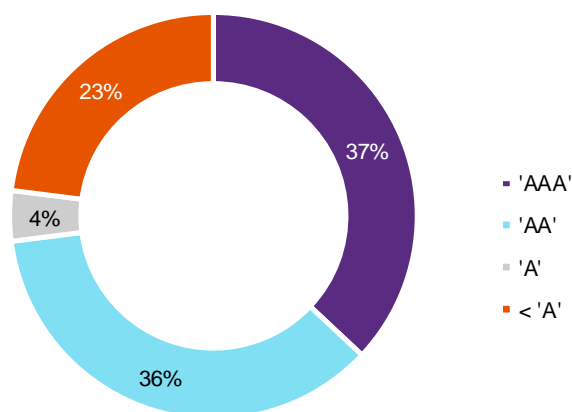
Strong credit quality maintained

An increase in the proportion of the book rated below 'A' reflects the credit rating downgrades of Australian banks' subordinated debt by Standard & Poor's and Moody's in May and June 2017 respectively.

GROUP ASSET ALLOCATION – 30 JUNE 2017



CREDIT QUALITY – 30 JUNE 2017



13. INVESTMENTS

SENSITIVITY ANALYSIS

As at 30 June 2017, 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 2017	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	(177)	189
Assets backing shareholders' funds	(23)	24
Total interest rate sensitivity	(200)	213

INVESTMENT PERFORMANCE

A sound investment return was achieved on the technical reserves portfolio in FY17, with related investment income of \$241m including:

- An unrealised capital loss of \$48m at year end (FY16: \$151m gain), primarily associated with an upward shift in the yield curve since 30 June 2016. The 3-year government bond yield at 30 June 2017 was 1.91%, compared to 1.55% a year earlier;
- A positive impact of \$20m from the narrowing of credit spreads, compared to a negative effect of \$37m from the widening of spreads in FY16; and
- An adverse foreign exchange impact of \$4m, 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 adverse effect, of \$23m, was recorded in FY16.

After allowance for the factors outlined above and the timing of cash flows, the average yield achieved in FY17 was slightly higher than that of FY16.

The portfolio continues to be aligned with the average weighted duration of IAG's claims liability, which is now around two years.

Investment returns on shareholders' funds in FY17 were supported by the strong performance of equity markets, both domestic and offshore. The broader Australian index (S&P ASX200 Accumulation) delivered a positive return of 14.1% over the year ended 30 June 2017 (FY16: +0.6%). The MSCI World Total Return Index (AUD Hedged) returned 20.4% (FY16: -2.8%).

Sound return on technical reserves

Higher shareholders' funds return owing to strong equity markets

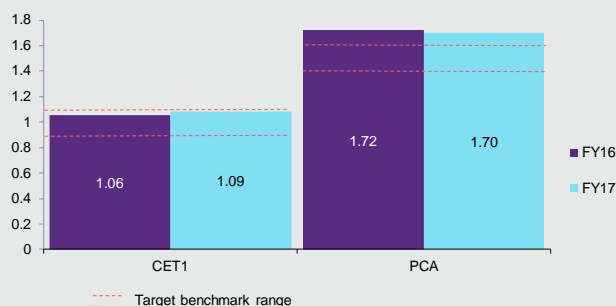
INVESTMENT INCOME	1H16 A\$m	2H16 A\$m	1H17 A\$m	2H17 A\$m	FY16 A\$m	FY17 A\$m
Technical reserves	174	289	37	204	463	241
Shareholders' funds	38	59	105	144	97	249
Total investment income	212	348	142	348	560	490

14. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
 - CET1 multiple of 1.09 vs. benchmark of 0.9-1.1
 - PCA multiple of 1.70 vs. benchmark of 1.4-1.6
- \$314m off-market buy-back completed in early October 2016
- Active debt and hybrid capital management program during FY17 as less efficient instruments retired
- Capital mix within targeted ranges
- S&P 'AA-' rating of core operating subsidiaries reaffirmed in February 2017

Regulatory Capital



BALANCE SHEET

	1H16 A\$m	FY16 A\$m	1H17 A\$m	FY17 A\$m
Assets				
Cash and cash equivalents	310	263	378	424
Investments	13,960	12,946	12,314	12,136
Investments in joint ventures and associates	455	486	489	505
Trade and other receivables	3,694	4,321	3,767	4,153
Reinsurance and other recoveries on outstanding claims	4,298	4,689	4,940	5,258
Deferred insurance expenses	2,852	2,778	2,869	2,770
Goodwill and intangible assets	3,590	3,410	3,366	3,332
Other assets	1,104	1,137	1,143	1,019
Total assets	30,263	30,030	29,266	29,597
Liabilities				
Outstanding claims	12,141	11,741	11,528	11,371
Unearned premium	6,027	6,220	6,163	6,331
Interest bearing liabilities	1,781	1,962	1,778	1,624
Trade and other payables	2,251	2,346	2,376	2,434
Other liabilities	914	976	810	1,045
Total liabilities	23,114	23,245	22,655	22,805
Net assets	7,149	6,785	6,611	6,792
Equity				
Equity attributable to holders of ordinary shares	6,930	6,563	6,388	6,562
Non-controlling interests	219	222	223	230
Total equity	7,149	6,785	6,611	6,792

IAG's total assets at 30 June 2017 were \$29,597m compared to \$29,266m at 31 December 2016. The net increase of \$331m includes:

- A \$178m decrease in investments, including payment of the interim dividend, the buy-back of outstanding convertible preference shares (CPS) and net inflows from operating activities;
- A \$386m increase in trade and other receivables, largely reflecting an increase in premium receivable on the back of solid GWP growth; and
- A \$318m increase in reinsurance and other recoveries, driven by recoveries recognised in respect of Tropical Cyclone Debbie and the FY17 natural perils cover.

Balance sheet movements include GWP growth and peril-related effects

14. BALANCE SHEET & CAPITAL

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 2017 were \$22,805m, compared to \$22,655m at 31 December 2016. Within the \$150m increase:

- A \$157m decrease in outstanding claims, including the net effect of prior period reserve releases and claims attributable to Tropical Cyclone Debbie;
- A \$168m increase in unearned premium, reflecting solid GWP growth;
- A \$154m decrease in interest bearing liabilities, following the buy-back of all outstanding CPS in early May 2017; and
- A \$235m increase in other liabilities, including higher tax payable in Australia.

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) increased from \$6,388m at 31 December 2016 to \$6,562m at 30 June 2017, predominantly reflecting the net effect of:

- Retained earnings in 2H17; and
- Payment of the 13 cents per share interim dividend in late March 2017.

OUTSTANDING CLAIMS

Net Outstanding Claims Liability

IAG's net outstanding claims liability at 30 June 2017 stood at \$6,113m, compared to \$7,052m at 30 June 2016. The greater than \$900m reduction over the course of the year included the substantial prior period reserve releases recognised in FY17.

As at 30 June 2017, 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 \$105m; and
- -1%, an increase in net outstanding claims liability of \$112m.

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.

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 2017, more than 98% of the total estimated liability for the 2008 to 2010 accident years had been paid. The equivalent figure for the 2011 to 2014 accident years is over 90%, in excess of 88% for the 2015 accident year and over 84% for the 2016 accident year.

High prior period reserve releases a significant factor behind lower net claims liability

14. BALANCE SHEET & CAPITAL

NET ULTIMATE CLAIMS PAYMENTS DEVELOPMENT TABLE	Accident Year Ended 30 June											
	2007 and prior 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	2017 A\$m	TOTAL A\$m
Development												
At end of accident year		4,691	4,707	4,653	5,001	5,206	5,174	5,633	6,317	4,961	5,343	
One year later		4,651	4,741	4,627	5,117	5,281	5,098	5,638	6,244	4,938		
Two years later		4,644	4,677	4,525	5,160	5,222	5,017	5,552	6,182			
Three years later		4,622	4,669	4,474	5,192	5,132	4,938	5,411				
Four years later		4,602	4,583	4,422	5,402	5,080	4,858					
Five years later		4,532	4,530	4,369	5,474	5,019						
Six years later		4,521	4,485	4,334	5,484							
Seven years later		4,506	4,448	4,304								
Eight years later		4,487	4,444									
Nine years later		4,471										
Ten years later												
Current estimate of net ultimate claims		4,471	4,444	4,304	5,484	5,019	4,858	5,411	6,182	4,938	5,343	
Cumulative payments made to date		4,430	4,390	4,230	5,158	4,868	4,585	4,892	5,454	4,178	3,371	
Net undiscounted outstanding claims payments	155	41	54	74	326	151	273	519	728	760	1,972	5,053
Discount to present value	(10)	(3)	(3)	(5)	(7)	(9)	(14)	(21)	(28)	(33)	(54)	(187)
Net discounted outstanding claims payments	145	38	51	69	319	142	259	498	700	727	1,918	4,866
Claims handling costs												362
Risk margin												885
Net outstanding claims liability												6,113
Gross outstanding claims liability on the balance sheet												11,371
Reinsurance and other recoveries on outstanding claims												(5,258)
Net outstanding claims liability												6,113

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.

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 IAG. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.

IAG'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. IAG's probability of adequacy of the claims liability for FY17 is 90%, which is unchanged.

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. IAG 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 17% at 30 June 2017 (FY16: 19%). The movement over the year reflects changes in outstanding claims mix.

CAPITAL

Capital Adequacy

IAG remains strongly capitalised, with regulatory capital of \$4.5bn at 30 June 2017. At that date, IAG's Common Equity Tier 1 (CET1) ratio was 1.09 times the Prescribed Capital Amount (PCA), compared to a targeted range of 0.9 to 1.1 times and a regulatory requirement of 0.6 times. This is in line with the position at 31 December 2016, owing to the net effect of:

- Retained earnings in 2H17;
- Payment of the FY17 interim dividend of 13 cents per share;

IAG is strongly capitalised

14. BALANCE SHEET & CAPITAL

- A reduction in technical provisions in excess of liabilities, reflecting lower outstanding claims;
- A modest further favourable impact from the Berkshire Hathaway quota share arrangement; and
- The unwind of the tactical investment derivatives position present at the end of 1H17 which temporarily reduced the asset risk charge at 31 December 2017.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H16 A\$m	FY16 A\$m	1H17 A\$m	FY17 A\$m
Common Equity Tier 1 Capital (CET1)				
Ordinary shares	7,275	7,275	7,082	7,082
Reserves	(18)	32	25	17
Retained earnings	(283)	(701)	(680)	(499)
Technical provisions in excess of liabilities	816	535	480	417
Minority interests	219	222	223	230
Less: Deductions	(4,628)	(4,525)	(4,425)	(4,359)
Total Common Equity Tier 1 Capital	3,381	2,838	2,706	2,888
Additional Tier 1 Capital				
Hybrid equities	762	707	887	679
Total Tier 1 Capital	4,143	3,545	3,593	3,567
Tier 2 Capital				
Subordinated term notes	811	1,074	907	959
Total Tier 2 Capital	811	1,074	907	959
Total Regulatory Capital	4,954	4,619	4,500	4,526
Prescribed Capital Amount (PCA)				
Insurance risk charge	1,418	1,378	1,313	1,285
Insurance concentration risk charge	200	200	200	200
Diversified asset risk charge	1,502	1,445	1,227	1,493
Aggregation benefit	(702)	(682)	(610)	(671)
Operational risk charge	341	341	350	354
Total Prescribed Capital Amount	2,759	2,682	2,480	2,661
CET1 multiple	1.23	1.06	1.09	1.09
PCA multiple	1.80	1.72	1.81	1.70

IAG's Prescribed Capital Amount (PCA) multiple was 1.70, compared to a targeted benchmark of 1.4 to 1.6 times. This has decreased from the 1.81 multiple reported at 31 December 2016, and incorporates a lower contribution from hybrid and debt capital following the buy-back of the outstanding CPS.

After further allowance for the 2H17 dividend of 20 cents per share, which will be paid at the beginning of October 2017, the CET1 multiple at 30 June 2017 would be at the lower end of IAG's benchmark range, while the PCA multiple would be slightly above the mid-point of the equivalent target range.

Interest Bearing Liabilities

During FY17 IAG's interest bearing liabilities reduced by nearly \$340m, following a series of capital management initiatives which retired less efficient older instruments and, where appropriate, replaced them with fully compliant new instruments.

A number of initiatives were completed in 1H17, all in the month of December 2016:

- The issue of \$404m Capital Notes, qualifying as Additional Tier 1 Capital;

Lower debt and hybrid capital, after series of initiatives in FY17

14. BALANCE SHEET & CAPITAL

- The buy-back of \$224m CPS, as part of the Reinvestment Offer accompanying the Capital Notes issue;
- The redemption of NZ\$187m of subordinated fixed rate bonds; and
- The redemption of £100m of subordinated fixed rate notes.

In 2H17, IAG completed the buy-back of the outstanding \$153m of CPS in May 2017.

	1H16 A\$m	FY16 A\$m	1H17 A\$m	FY17 A\$m
INTEREST BEARING LIABILITIES				
Subordinated debt	858	1,042	687	684
Convertible Preference Shares	377	377	153	-
Reset Exchangeable Securities	550	550	550	550
Capital Notes	-	-	404	404
Capitalised transaction costs/other	(4)	(7)	(16)	(14)
Total interest bearing liabilities	1,781	1,962	1,778	1,624

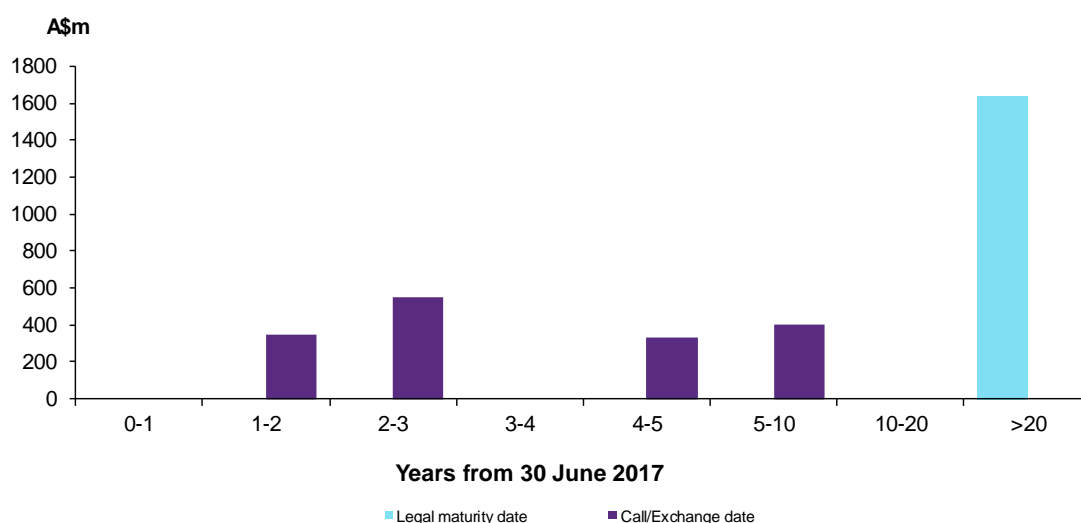
GROUP DEBT & HYBRID CAPITAL	Principal amount		Yield (net of swaps) %	Rate	First Call or Exchange date	S&P rating
	\$m	A\$m				
Subordinated term notes ¹	A\$350	350	4.52%	Variable	Mar-19	'A-'
Subordinated fixed rate notes	NZ\$350	334	5.15%	Fixed	Jun-22	'BBB'
Total Debt		684				
Reset Exchangeable Securities (IANG) ²	A\$550	550	4.00%	Variable	Dec-19	'BBB+'
Capital Notes (IAGPD) ³	A\$404	404	4.49%	Variable	Jun-23	'N/R'

¹ Stated yield based on margin of BBSW + 2.80%.

² The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

³ The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

GROUP DEBT MATURITY PROFILE



14. 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 CET1 and PCA levels.

In recognition of its strong capital position, and with a focus on maximising shareholder returns, IAG completed a \$314m off-market ordinary share buy-back in October 2016.

As part of its broader capital management program, IAG is currently exploring additional reinsurance quota share opportunities with its counterparties which have the potential to further strengthen IAG's regulatory capital position.

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 2017, debt and hybrids represented 31.9% of total tangible capitalisation.

CAPITAL MIX	1H16 A\$m	FY16 A\$m	1H17 A\$m	FY17 A\$m
Shareholder equity	7,149	6,785	6,611	6,792
Intangibles and goodwill	(3,590)	(3,410)	(3,366)	(3,332)
Tangible shareholder equity	3,559	3,375	3,245	3,460
Interest bearing liabilities	1,781	1,962	1,778	1,624
Total tangible capitalisation	5,340	5,337	5,023	5,084
Debt to total tangible capitalisation	33.4%	36.8%	35.4%	31.9%

Credit Ratings

On 5 February 2017, 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.

\$314m off-market buy-back completed in October 2016

Capital mix within targeted ranges

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 2017.

APPENDIX B IAG BUSINESS SNAPSHOT

AUSTRALIA

Consumer

Consumer's 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.

Consumer also includes travel insurance, life insurance and income protection products which are underwritten by third parties.

Business

Business' products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents and financial institutions, and directly through call centre and online channels. Business 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.

Business operates across Australia under the following brands:

- CGU Insurance;
- Swann Insurance;
- WFI;
- NRMA Insurance;
- RACV;
- SGIC; and
- SGIO.

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
- Lifestyle and leisure insurance, such as boat, veteran and classic car and caravan

Long tail insurance

- Compulsory Third Party (motor injury liability)

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

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 has been 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.

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

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED



National Roads and Motorists' Association Limited was established in 1920 and is a mutual organisation with over 2.4 million members. Until August 2000 it owned the NRMA Insurance business. At that time National Roads and Motorists' Association Limited and its members received IAG shares as consideration for the NRMA Insurance business to demutualise. The NRMA Insurance business now forms the majority of Consumer in Australia.

Under the terms of the demutualisation agreements, National Roads and Motorists' Association Limited and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- National Roads and Motorists' Association Limited – 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 National Roads and Motorists' Association Limited.

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 National Roads and Motorists' Association Limited, notably those in respect of the NRMA branch network which is operated and managed by IAG. In 2016, National Roads and Motorists' Association Limited started selling NRMA Insurance's motor insurance products. The two organisations retain a strong and closely aligned relationship, with a focus on delivering a consistent NRMA brand customer experience.

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; emergency roadside and home 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 (which is owned by Wesfarmers Limited) to underwrite Coles Insurance as of 30 June 2014. This was part of a transaction which saw IAG acquire the former Wesfarmers Insurance underwriting operations at that date. Under this agreement, Consumer underwrites car and home products for Coles Insurance in Australia.



ASIA

AMBANK GROUP

Established in August 1975, AmBank Group is the sixth largest banking group 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

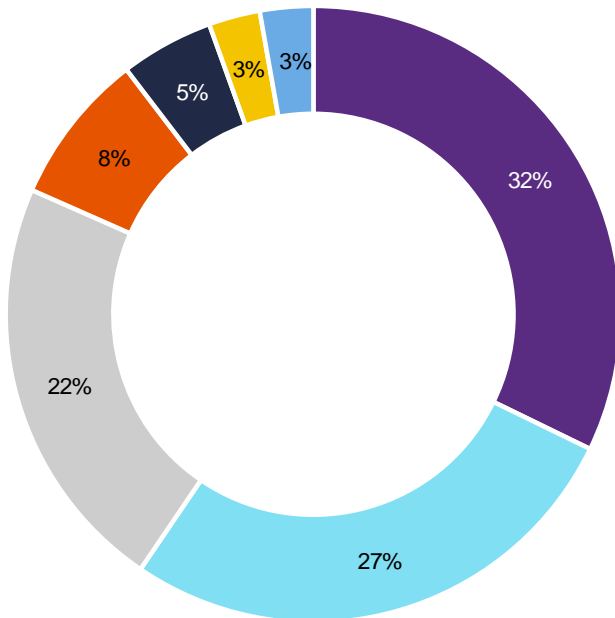
State Bank of India (SBI) is India's largest and oldest bank, with origins back to 1806. It offers a broad range of banking and financial services, and has a savings account base of over 400 million customers and in excess of 24,000 branches across all states of India.



SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. SBI General commenced operations in 2010 and is building a portfolio in the corporate, retail and SME markets across India. SBI General has an exclusive corporate agency agreement with SBI Group for general insurance business. SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49%.

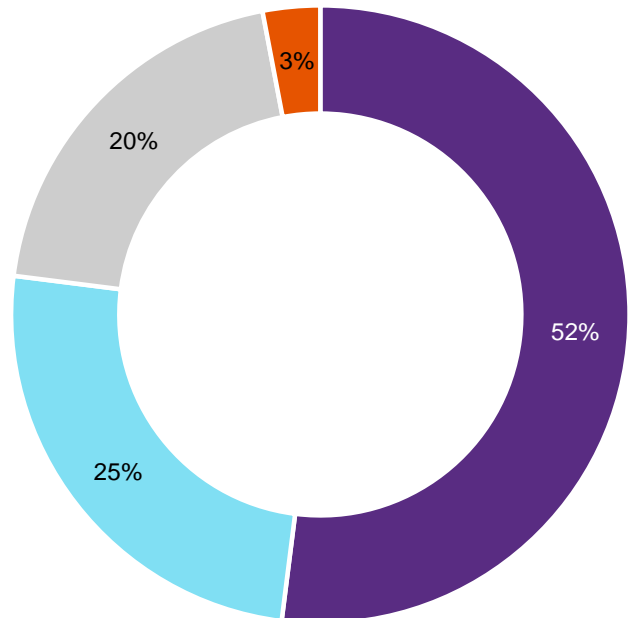
APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GWP BY PRODUCT — FY17



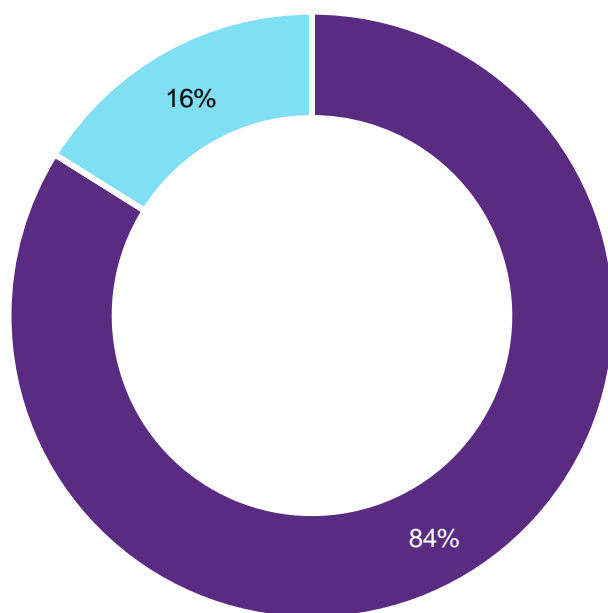
- Motor
- Home
- Short tail commercial
- CTP/motor liability
- Liability
- Workers' compensation
- Other short tail

IAG GWP BY BUSINESS — FY17



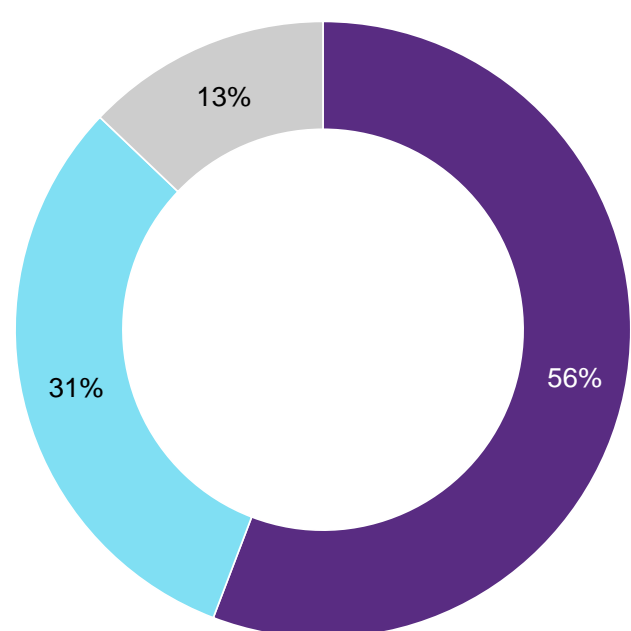
- Consumer
- Business
- New Zealand
- Asia

IAG GWP BY TAIL — FY17



- Short Tail
- Long Tail

IAG GWP BY CHANNEL — FY17



- Direct
- Intermediated
- Affinity

APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 2016 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-17 IAG FINALISES 2017 CATASTROPHE REINSURANCE

IAG advised it had finalised its catastrophe reinsurance program for the 2017 calendar year. It is similar in construction to prior years and provides gross reinsurance protection up to \$7bn, placed to the extent of 80% after allowance for the 20% quota share arrangement with Berkshire Hathaway. The combination of all catastrophe covers in place at 1 January 2017 results in maximum first event retentions, post-quota share, of \$200m for Australia, NZ\$200m for New Zealand, \$20m for Thailand, and approximately \$1m for Vietnam and Indonesia.

22-FEB-17 IAG POSTS SOUND 1H17 FINANCIAL RESULTS

IAG announced a 1H17 insurance profit of \$571m and a reported insurance margin of 13.5%. GWP for the half was slightly above expectations at \$5.8bn, a 4.7% increase on 1H16, predominantly due to rate increases to counter higher claim costs in short tail personal lines in Australia and New Zealand, and improved commercial pricing. Net profit after tax was \$446m, 4.3% lower than 1H16. This included a significantly higher contribution from investment income on shareholders' funds, which reflected stronger equity markets in the period. The Board determined to pay an interim fully franked dividend of 13 cents per ordinary share, representing a cash payout ratio of 64.3%. IAG raised its FY17 GWP guidance to low single-digit growth, compared to its previous relatively flat growth prediction. IAG maintained its FY17 reported margin guidance of 12.5-14.5%, with an expected outcome around the middle of the range.

22-FEB-17 IAG UPDATE ON NORTHERN SYDNEY HAILSTORM

IAG stated it had received more than 13,000 claims to date, predominantly motor, from the Northern Sydney hailstorm on 18 February 2017. While too early to determine the net cost, IAG assumed the net cost from this event together with further perils in FY17 would be within its current perils allowance and available reinsurance cover.

22-FEB-17 IAG LAUNCHES SMALL SHAREHOLDING SALE FACILITY AND CONFIRMS MINIMUM DRP PARTICIPATION LEVEL

IAG established a small shareholding sale facility for shareholders who held a small parcel of IAG ordinary shares on 17 February 2017, which allowed eligible shareholders to sell their shares without incurring any brokerage costs. IAG also set a minimum participation level for the DRP for the 2017 interim dividend.

6-MAR-17 IAG UPDATE ON NORTHERN SYDNEY HAILSTORM

IAG advised that, as at 5 March 2017, it had received over 20,000 claims from the Northern Sydney hailstorm and, while there remained a degree of uncertainty, expected a net claim cost of around \$160m. After allowance for reinsurance, IAG's maximum possible net exposure to this event was \$200m.

5-APR-17 FINANCIAL IMPACT OF TROPICAL CYCLONE DEBBIE AND REVISED FY17 REPORTED INSURANCE MARGIN GUIDANCE

IAG estimated a net natural peril claims cost of approximately \$140m from Tropical Cyclone Debbie. Following this event, IAG increased its expectation for FY17 net natural peril claim costs to \$850m, compared to the previously held assumption of \$680m, with the \$170m increase equating to approximately 200bps at the reported insurance margin level. As a result, IAG lowered its FY17 reported insurance margin guidance range, from 12.5-14.5% to 10.5-12.5%.

APPENDIX E KEY ASX RELEASES

5-APR-17 IAG ANNOUNCES BUY-BACK OF OUTSTANDING CONVERTIBLE PREFERENCE SHARES (CPS)

IAG issued a notice to buy back the outstanding balance of CPS (amounting to approximately \$153m) on 1 May 2017.

12-APR-17 IAG SMALL SHAREHOLDING SALE FACILITY

IAG announced that the IAG Small Shareholding Sale Facility closed on 7 April 2017. The facility led to the sale of 281,438 shares and participating shareholders received \$6.1063 per share.

9-JUN-17 IAG PURCHASES ADDITIONAL CATASTROPHE REINSURANCE COVER

IAG strengthened its reinsurance cover through the purchase of additional catastrophe protection. Details were:

- \$1bn of gross protection in excess of \$7bn, including one prepaid reinstatement;
- Placement to the extent of 80% to reflect existing quota share arrangements; and
- A contractual period of 19 months, commencing 1 June 2017 and concluding on 31 December 2018.

28-JUN-17 IAG ADVISES OF HIGHER RESERVE RELEASE EXPECTATION

IAG advised that, as part of its regular year end processes, it had completed a preliminary review of prior period reserve releases for the financial year ended 30 June 2017 which indicated an outcome equivalent to at least 5% of NEP. This compared to previously held guidance of at least 2% of NEP. As a result, IAG raised its reported margin guidance range for FY17 from 10.5-12.5% to 13.5-15.5%. Other underlying assumptions behind IAG's FY17 reported margin guidance were unchanged.

19-JUL-17 IAG CREATES SINGLE AUSTRALIAN DIVISION

IAG announced the creation of a single Australian division with Mark Milliner, currently IAG Chief Operating Officer, leading it as CEO Australia with immediate effect. The division simplifies IAG's operating model by bringing together the former Consumer, Business, Operations and Satellite divisions, and centralising accountability for the customer, product, distribution and operations functions for IAG's Australian brands.

20-JUL-17 GENERAL INSURANCE LICENCE CONSOLIDATION APPROVED

IAG advised it would consolidate its nine Australian general insurance licences into two after receiving approval from the Federal Court of Australia. This is part of its work to become a simpler, more efficient and agile business. There will be no impact on IAG's consolidated regulatory capital.

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.
CAPITAL NOTES	Capital Notes were issued by IAG in December 2016 and are quoted as IAGPD on ASX.
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 were subject to buy-back in FY17.
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.

APPENDIX F GLOSSARY

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.
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.
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.

APPENDIX F GLOSSARY

LOSS RATIO	The ratio of net claims expense to net earned premium.
MER	Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.
NATURAL PERILS	Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.
NATURAL PERILS ALLOWANCE	The natural perils expense forecast to be incurred within a specified period of time based upon previous experience and management judgement, which is reflected in the pricing of related insurance products for the same period.
NATURAL PERILS EXPENSE	Losses arising from natural perils after deducting any applicable reinsurance recoveries.
NET CLAIMS EXPENSE	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
NET EARNED PREMIUM (NEP)	Net earned premium is gross earned premium less reinsurance expense.
PCA	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.

APPENDIX F GLOSSARY

ROE	Return on equity, being net profit after tax divided by average equity attributable to owners of the company.
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	<p>LAG defines underlying margin as the reported insurance margin adjusted for:</p> <ul style="list-style-type: none">• Net natural peril claim costs less related allowance;• Reserve releases in excess of 1% of NEP; and• Credit spread movements. <p>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.</p>
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**): 2,367,524,344 on issue at 30 June 2017
- Reset Exchangeable Securities (**IANG**): 5,500,000 on issue at 30 June 2017
- Capital Notes (**IAGPD**): 4,041,265 on issue at 30 June 2017

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ\$350m outstanding at 30 June 2017

KEY DATES

Final dividend – ordinary shares

- Ex-dividend date 6 September 2017
- Record date 7 September 2017
- DRP record date 8 September 2017
- Payment date 9 October 2017

Payment date for IANG, IAGPD and IAGFB quarterly distributions 15 September 2017

Annual General Meeting 20 October 2017

Payment date for IANG, IAGPD and IAGFB quarterly distributions 15 December 2017

Announcement of half year results to 31 December 2017 14 February 2018*

Interim dividend – ordinary shares

- Ex-dividend date 20 February 2018*
- Record date 21 February 2018*
- DRP record date 22 February 2018*
- Payment date 29 March 2018*

Payment date for IANG, IAGPD and IAGFB quarterly distributions 15 March 2018

Payment date for IANG, IAGPD and IAGFB quarterly distributions 15 June 2018

Announcement of full year results to 30 June 2018 15 August 2018*

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

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