



Financial results

Half year ended 31 December 2016

Peter Harmer
Managing Director and
Chief Executive Officer

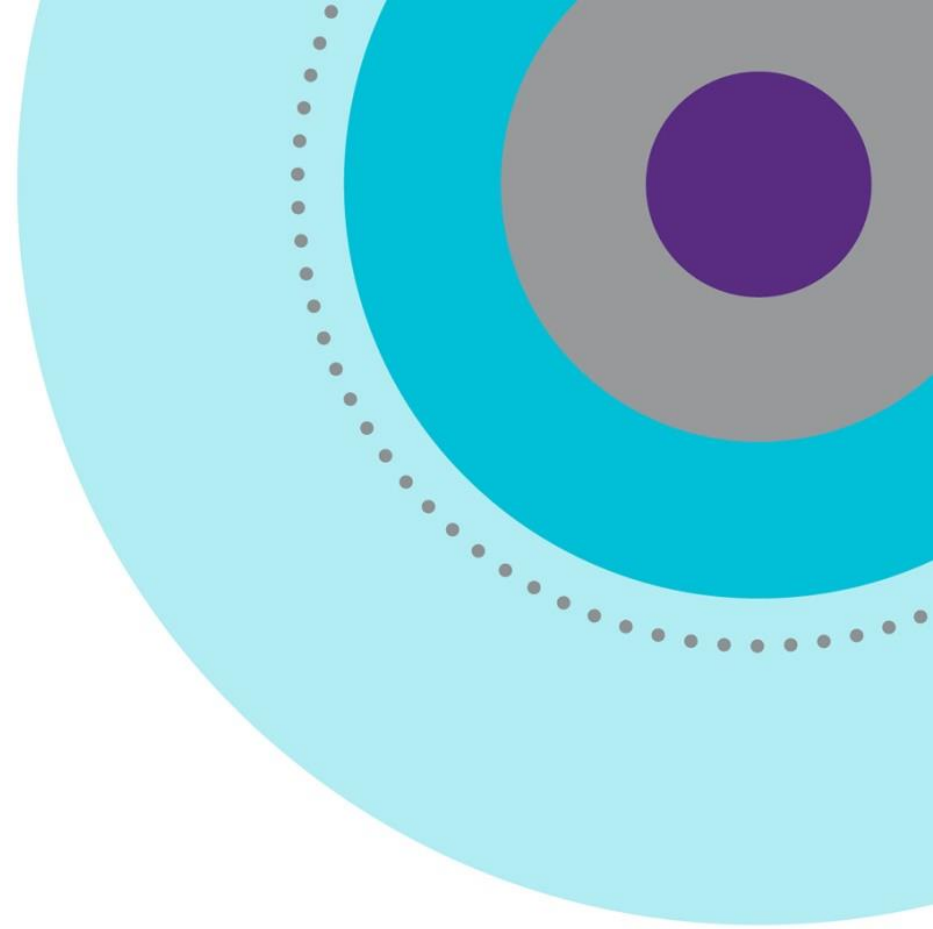
Nick Hawkins
Chief Financial Officer

22 February 2017

Overview

Peter Harmer

Managing Director and Chief Executive Officer

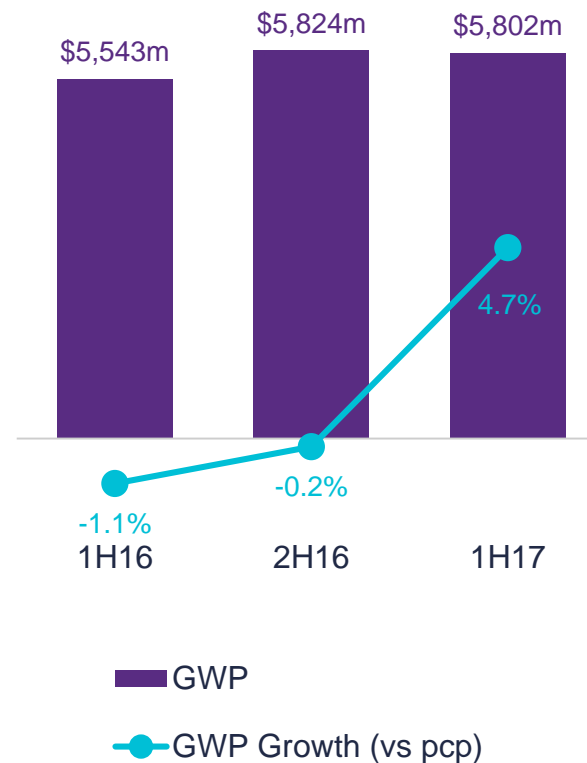


1H17 highlights

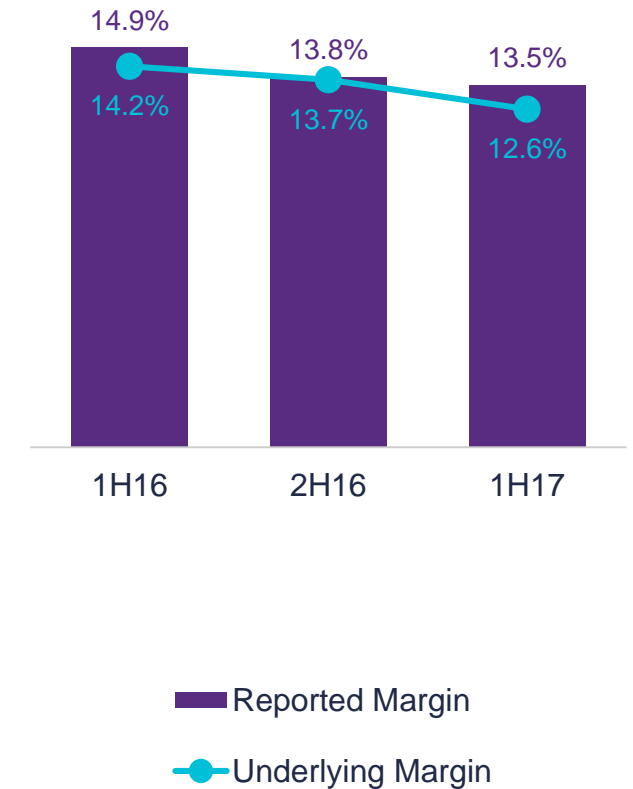
Sound result in challenging environment

- Higher than expected GWP growth, responding to claim cost pressures (notably motor)
- Sound underlying margin of 12.6% – significant adverse perils allowance effect
- Short tail personal lines businesses performing well
- Difficult commercial market conditions – evidence cycle has passed bottom in Australia, initial positive signs in New Zealand
- Ongoing pressure on NSW CTP from elevated claims frequency – reform timetable uncertain
- Lower Asian contribution reflecting increased competitive activity and claim costs in key markets
- Reduced earnings volatility, strong capital position
- Optimisation activities progressing to plan – small net negative absorbed in insurance profit
- Interim dividend maintained at 13 cents per share – 64.3% of cash earnings

GWP growth

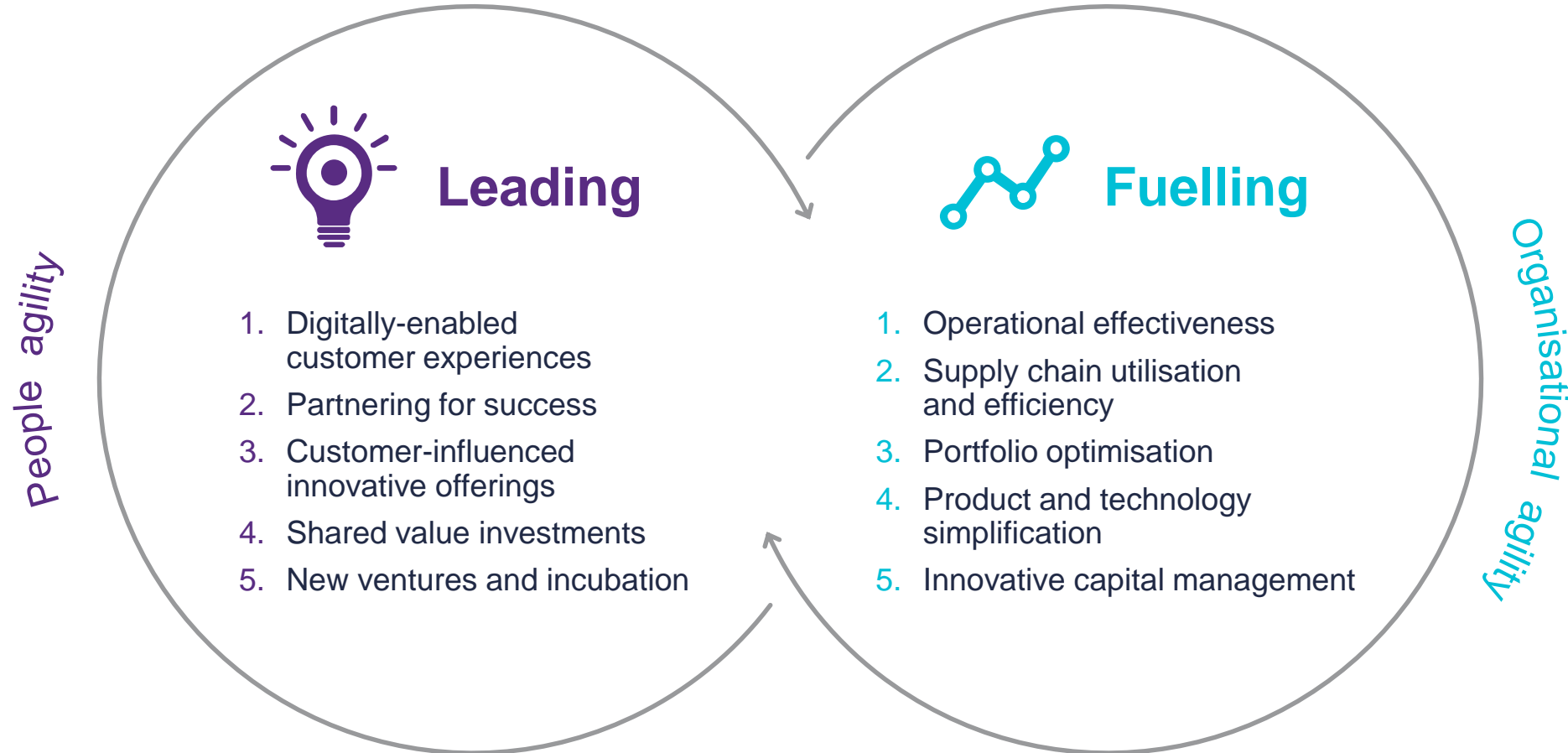


Insurance margin



Driving customer and business benefits

Two strategic themes



Putting customers at the centre

Ensuring our products and services make your world a safer place



- **Venture Fund**
- **Firemark Labs - Singapore-based, InsurTech innovation hub**
- **Use of drones**
- **Connected homes**
- **Consumer Advisory Board**
- **Ethics Committee**

Optimisation focus for FY17

Partnering and systems underpin optimisation activities

Activities to date 1H17

Upcoming focus 2H17



Effective partnering

- Contracts signed with partners in Philippines and India
- First wave – Satellite sales and service, finance, digital documentation

- Continue transition of next wave into broader areas – claim recoveries and settlements, webchat, policy administration, payroll
- Embed operational partnering excellence framework



Core systems consolidation

- System consolidation roadmap defined across IAG brand portfolio

- Commence claims component of systems consolidation roadmap
- Further development of digital capability to enhance customer self-service functionality



Procurement

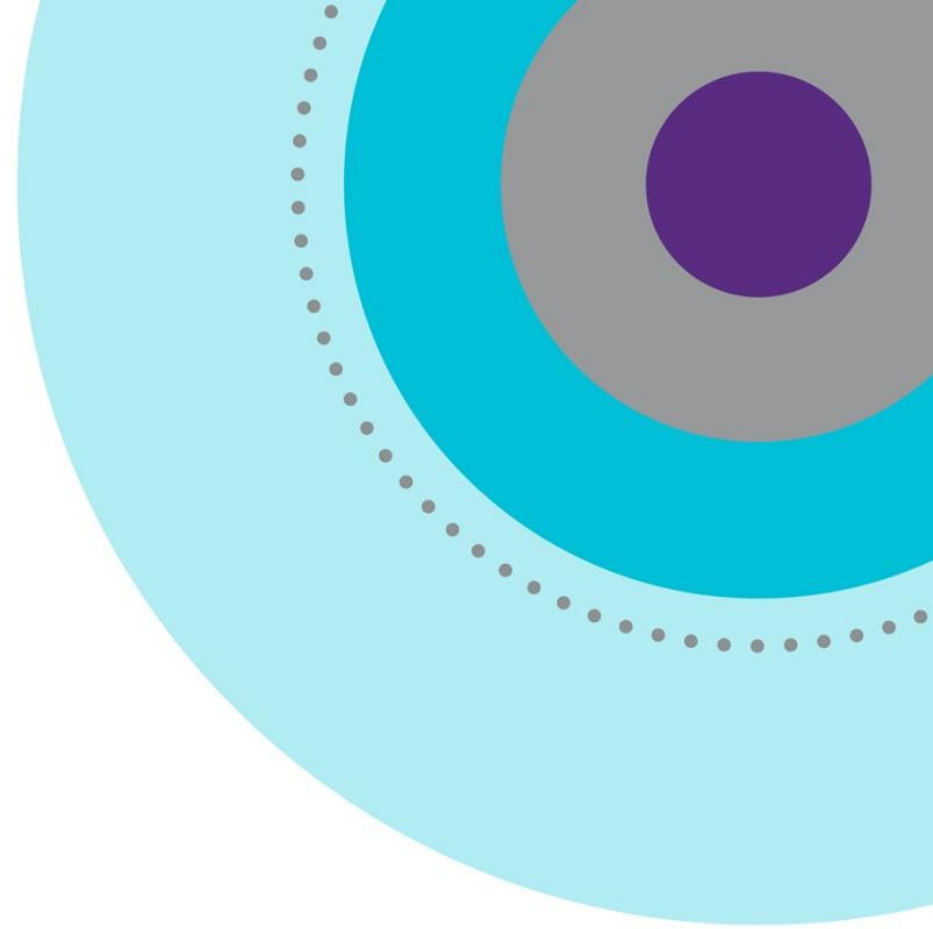
- Executed leases to consolidate property footprint in Melbourne and Perth
- New fit-for-purpose head office for Satellite opened in Sydney

- Ongoing consolidation of property footprint, including planning for Sydney head office relocation in FY19
- Progress consolidation of insurance licences - expected to occur FY18

Financials

Nick Hawkins

Chief Financial Officer



Financial summary

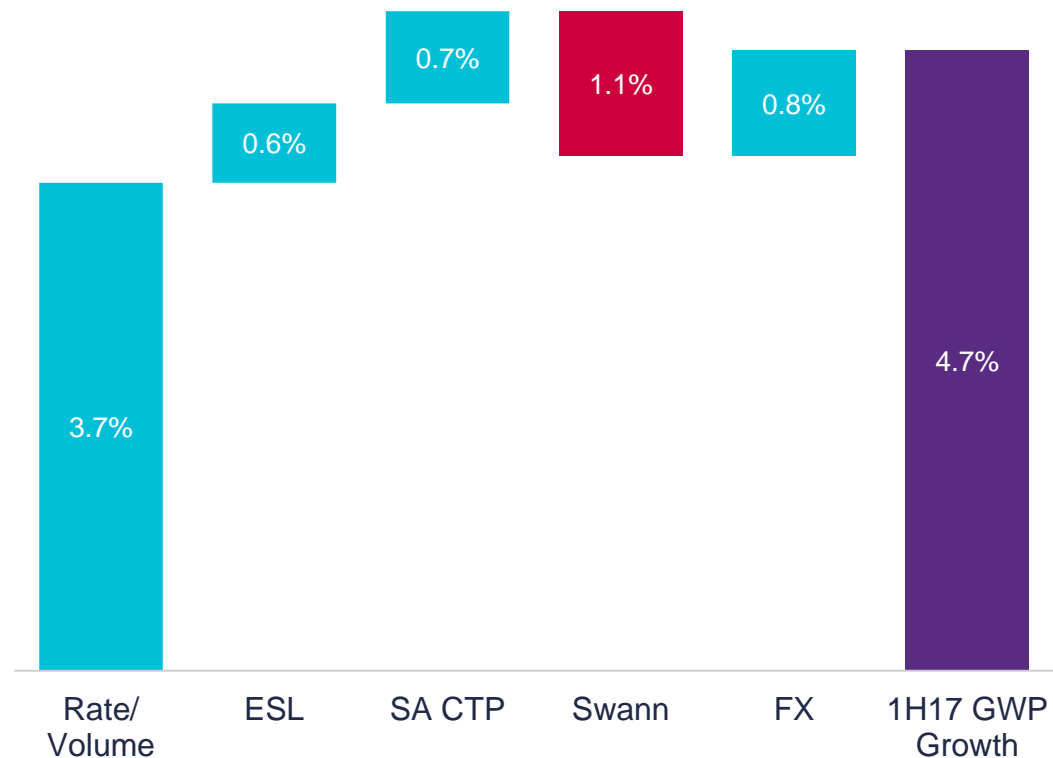
Cash ROE of 14.8%

	1H16	1H17	CHANGE
GWP (\$m)	5,543	5,802	4.7% ▲
Insurance profit (\$m)	610	571	6.4% ▼
Underlying margin (%)	14.2	12.6	160bps ▼
Reported margin (%)	14.9	13.5	140bps ▼
Shareholders' funds income (\$m)	38	105	176.3% ▲
Income tax expense (\$m)	67	109	62.7% ▲
Net profit after tax (\$m)	466	446	4.3% ▼
Cash earnings (\$m)	504	479	5.0% ▼
Ordinary dividend (CPS)	13.0	13.0	0% ↔
Special dividend (CPS)	10.0	n/a	n/a
Cash ROE (%)	14.7	14.8	10bps ▲
CET1 multiple	1.23	1.09	14bps ▼
PCA multiple	1.80	1.81	1bp ▲

GWP growth

Stronger top line performance than originally anticipated

GWP growth vs 1H16



Slightly higher than expected outcome

- Rate increases addressing claims inflation, notably motor
- Higher than expected retention in Business Division
- Favourable FX translation effect – notably New Zealand
- Adverse impact of competition in Thailand

Several one-off effects in current financial year

- Entry into South Australia CTP +\$37m – similar in 2H17
- Adverse \$61m impact from divested Swann motor dealership business – slightly higher reduction in 2H17
- Increased ESL collection of ~\$34m – opposite effect in 2H17, ahead of abolition from 1 July 2017

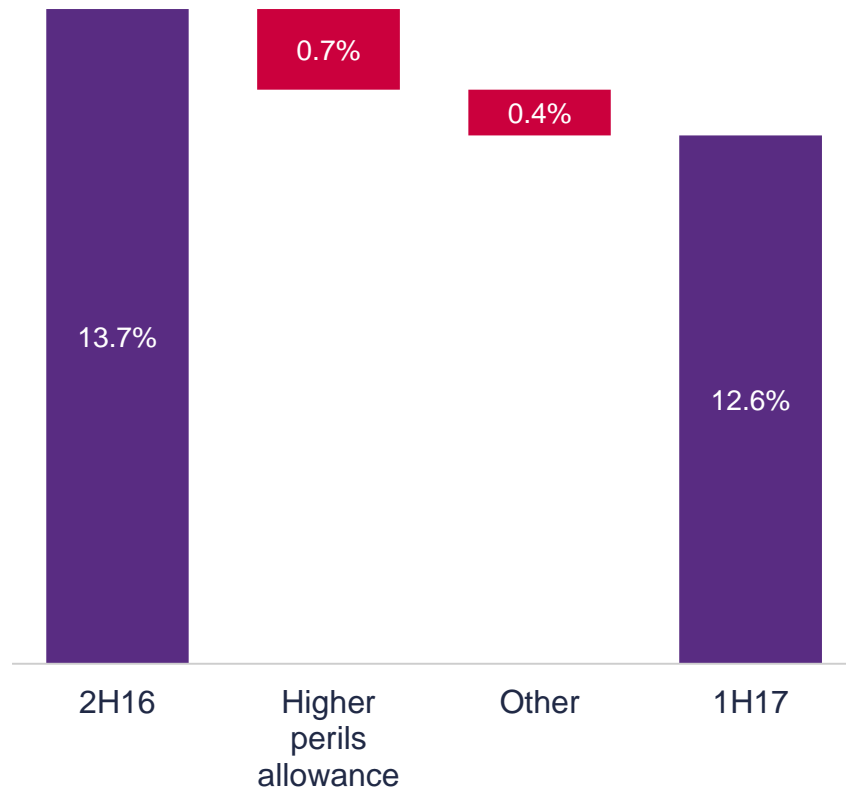
Full year GWP growth guidance raised to 'low single digit growth' from 'relatively flat'

- Expected continuance of rate increases in response to claims inflation

Underlying insurance margin

Includes ~70bps adverse impact from higher perils allowance

Underlying insurance margin (1H17 vs 2H16)



Slightly lower than expected underlying margin of 12.6% (1H16: 14.2%) included:

- ~70bps adverse effect of higher perils allowance
- Minor negative from claims inflation, addressed via rate increases
- Cumulative earned through effect of prior rate reductions and volume loss in commercial lines
- Slight drag from lower margin, high growth Satellite business
- Small loss from consolidated Asian businesses
- Absorption of a small net negative from optimisation activities
- Similar impact from Berkshire Hathaway quota share

Lower reported margin of 13.5% (1H16: 14.9%) following:

- Peril costs \$80m above allowance
- Higher than expected reserve releases: 3.7% of NEP
- Favourable credit spread movement

Claims inflation

Noticeable pressure in motor, largely covered by rate increases

Unexpected degree of claims inflation, largely matched by rate but with distinct variation by class:

- **Motor** incurring higher average claim costs from mixture of sources – addressed via higher rates
- Relative absence of claims inflation in Australian **home**
- **Commercial property** impacted by higher than normal large loss experience – consistent with 1H16
- **New Zealand** experiencing higher frequency and average claim cost size – factors vary by class
- Elevated level of claims in **NSW CTP** maintained

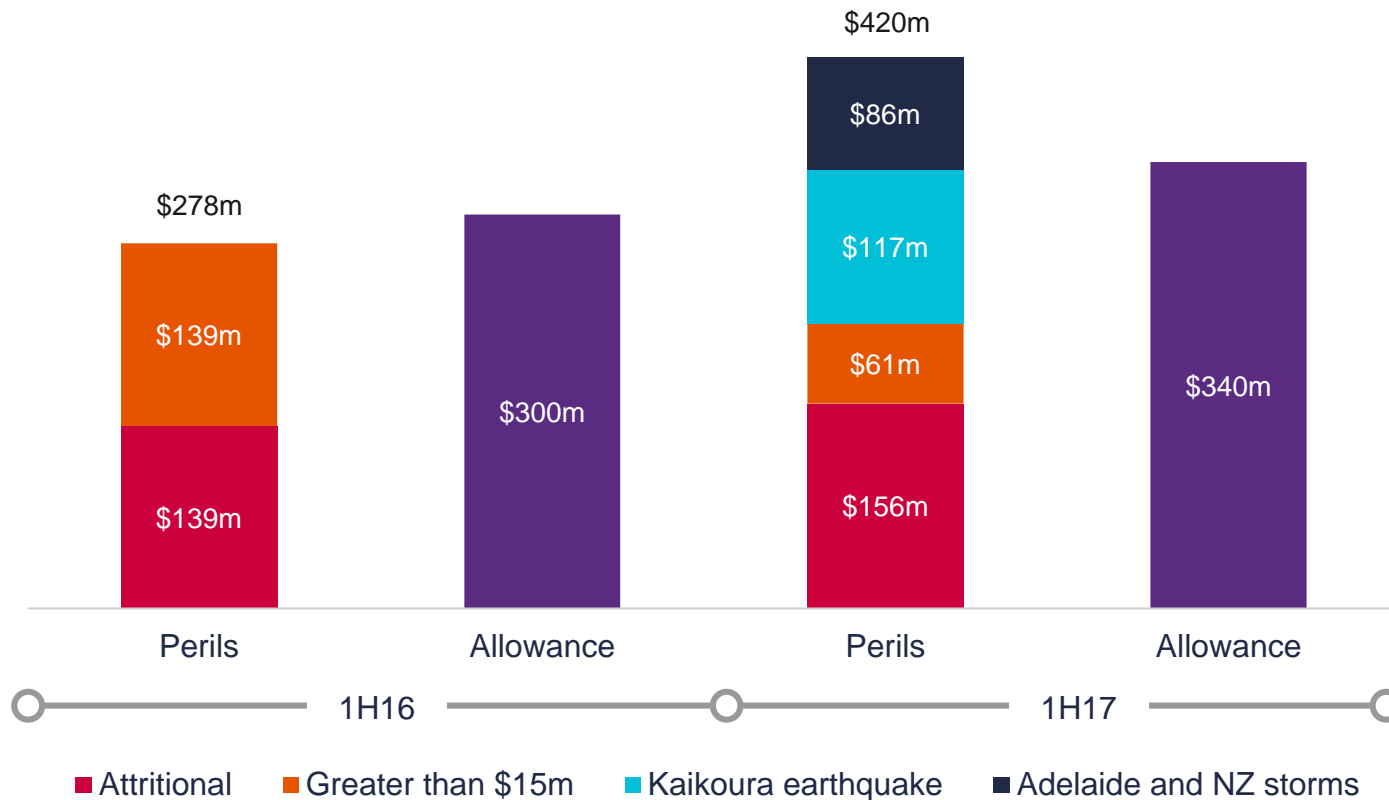


*Excludes reserve releases, natural perils and discount rate adjustments

Natural perils

1H17 outcome above allowance following earthquake and storm activity

Natural perils experience vs. allowance



1H17 net perils cost of \$420m - \$80m above allowance

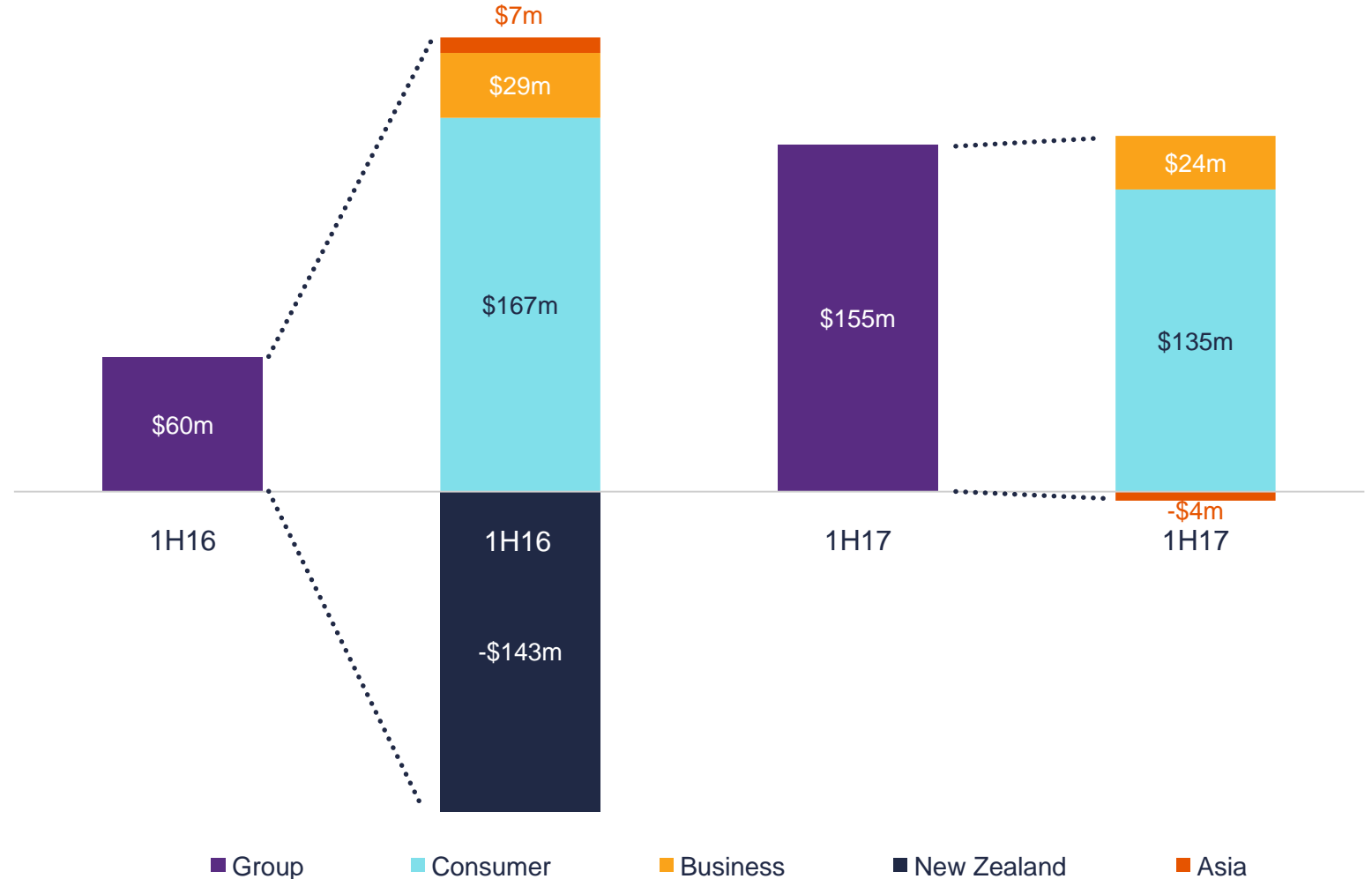
- Consistent with mid-November perils update (YTD ~\$340m), ahead of peak storm season
- Significant impact from Kaikoura earthquake (\$117m) and Adelaide and New Zealand storm event (\$86m)
- Over \$100m of protection from aggregate cover (1H16: ~\$130m)
- Attritional activity c.12% higher than 1H16

Maintained assumption that full year perils in line with \$680m allowance

- Northern Sydney hailstorm event too early to quantify
- Range of reinsurance covers, including FY17-specific perils protection of \$96m, running directly from top of allowance

Reserve releases

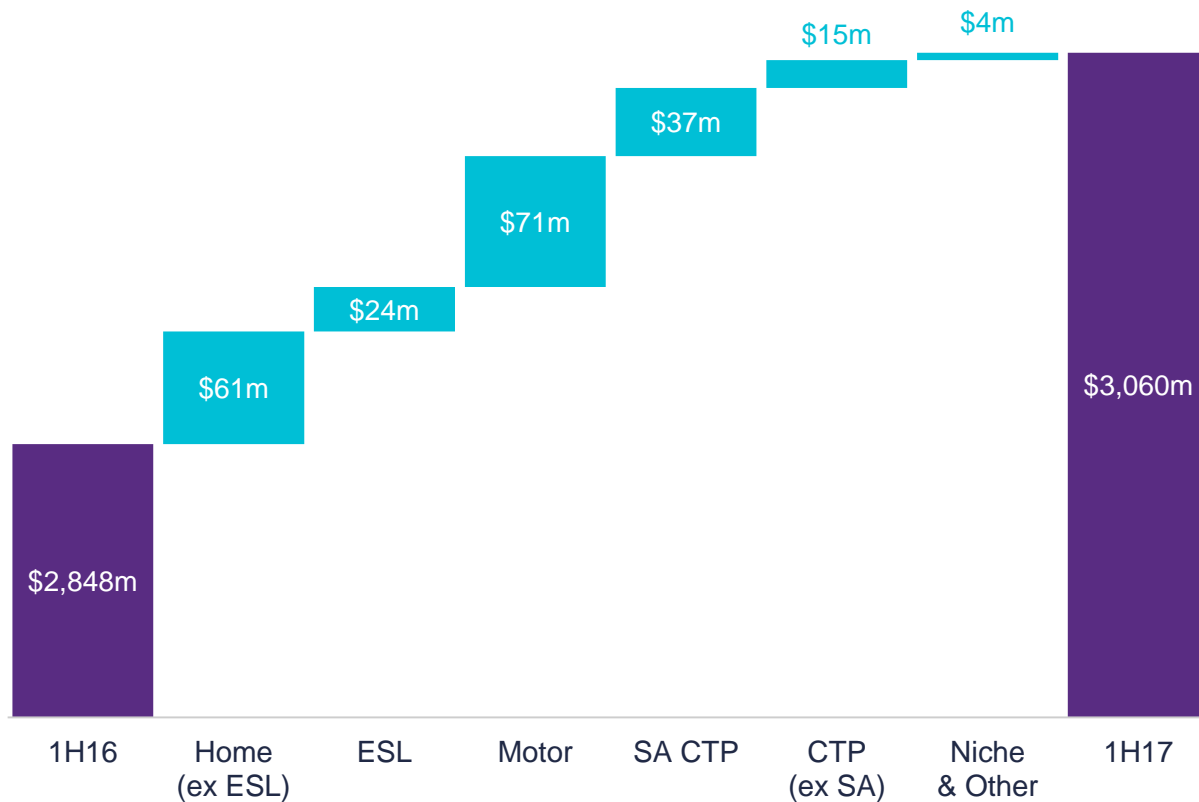
Higher than expected outcome (3.7% of NEP), driven by CTP



Consumer Division

Solid growth and sound profitability, despite claim pressures in motor and CTP

GWP growth



GWP growth of 7.4%, comprising:

- Solid growth in short tail motor and home, primarily from rate
- Increased ESL collection, ahead of abolition
- Strong growth from Satellite offering, notably Coles Insurance and BHIA (in partnership with Steadfast)
- Initial contribution from South Australian CTP
- Cumulative rate increases countering lower volume in NSW CTP

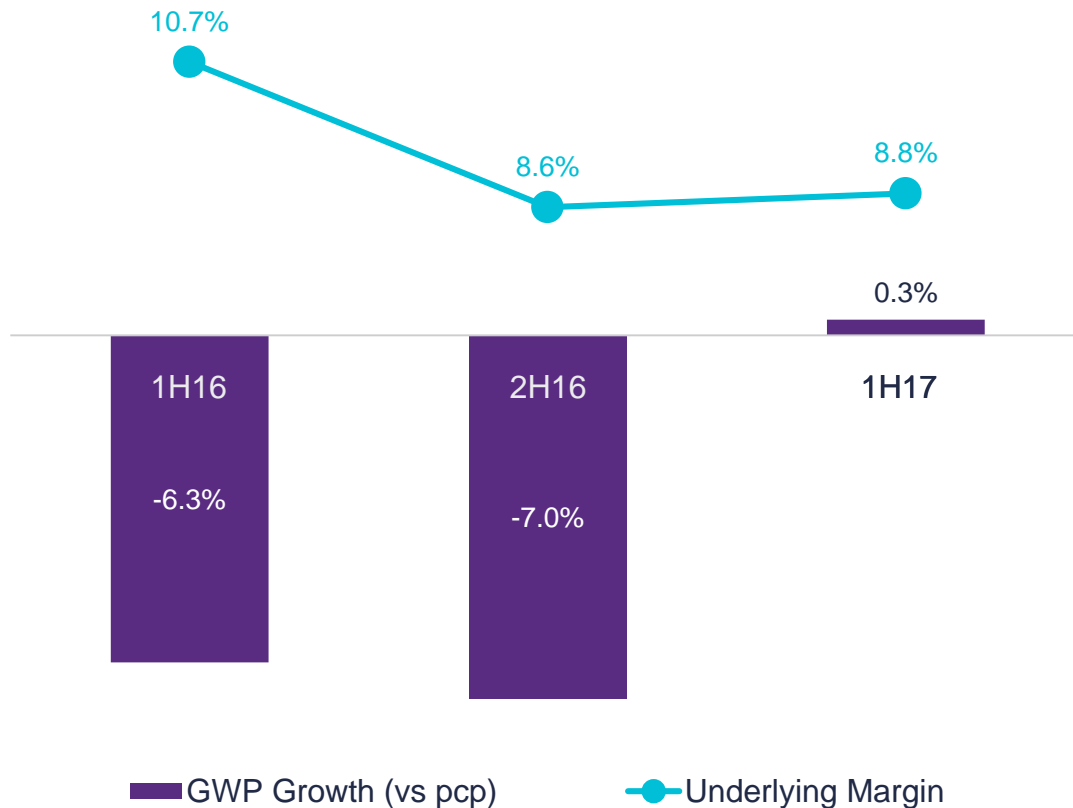
Lower underlying margin of 14.1%

- Continued pressure on NSW CTP profitability from elevated claim frequency
- Stronger growth of lower margin Satellite offering

Reported margin of 21.5% driven by higher than expected reserve releases (6.3% of NEP)

Business Division

Evidence cycle bottom has passed: rate rises, higher than expected retention



Excluding Swann divestment, over 4% like-for-like increase in GWP, derived from:

- Increases in rates across most classes
- Relatively steady policy count, with higher than expected retention levels
- Lower new business opportunities and volumes

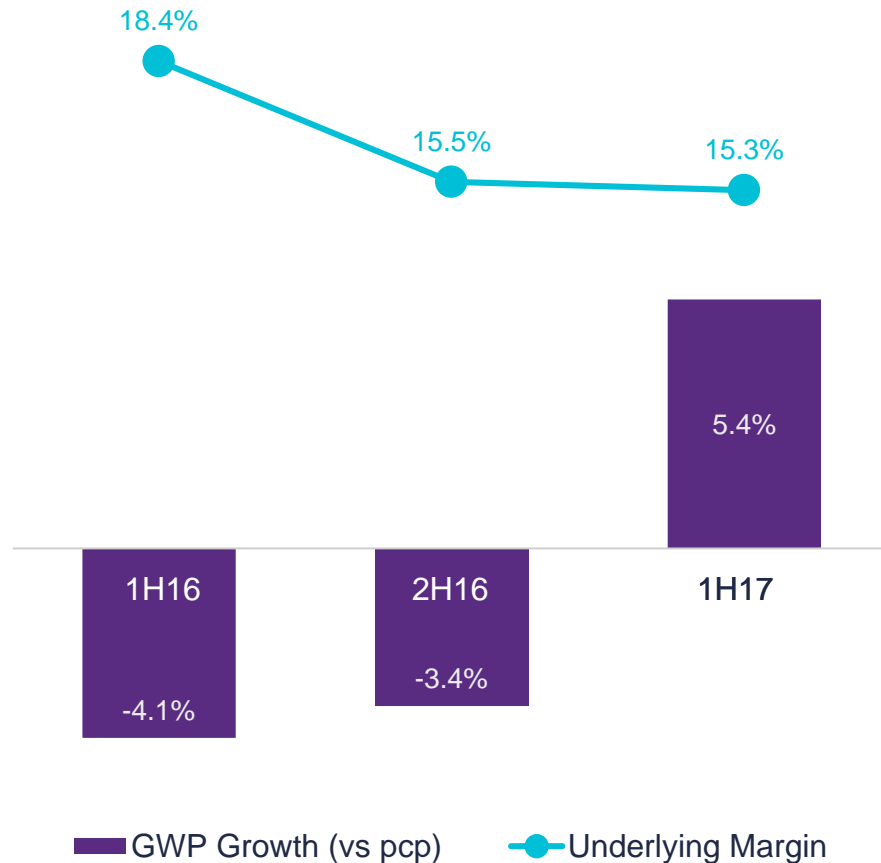
Modest underlying margin improvement against 2H16

Lower underlying outcome vs 1H16 reflects earned-through effect of reduced GWP in prior periods

Lower reported margin of 7.1% (1H16: 8.4%) also includes adverse peril experience (\$33m above allowance)

New Zealand

Strong underlying performance, despite soft commercial market



Return to modest GWP growth

- 1.1% local currency growth, plus favourable FX effect
- Sound growth in personal lines from mix of rate and volume, led by motor
- Softer premium rates and volume loss in commercial lines
- Modest rate improvement in commercial lines towards end of 1H17

Strong underlying margin of 15.3%, consistent with 2H16

- Higher working claims experience
- Competitive commercial pricing environment
- Reduced expenses

Reported margin of 4.3% impacted by \$117m net claim cost from Kaikoura earthquake

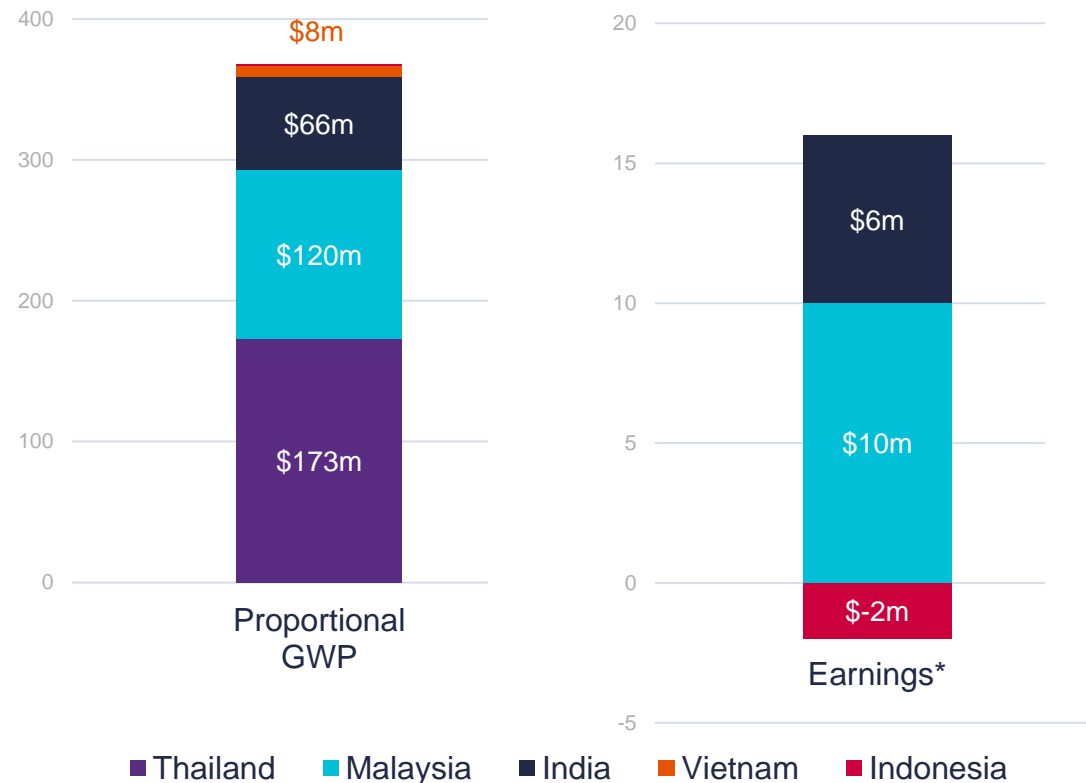
Canterbury rebuild progressing to plan

- Over 96% of claims fully settled
- February 2011 reserved position remains under NZ\$4.4bn

Asia

Lower result from increased competition and claim costs in key markets

Financial contribution by country



*Before regional support and development costs

Lower earnings contribution of \$2m (1H16: \$10m) from combination of:

- Increased competitive pressures and adverse claim cost trends in Thailand and Malaysia
- Move into profit by India on improved claim and expense outcomes
- Lower regional support and development costs

Flat proportional GWP of \$368m (+3.2% in constant currency terms)

- Intensified price competition in Thailand
- Resumption of modest local currency growth in Malaysia
- Continued strong growth in India of nearly 29%

Regional investment of ~\$800m

- Small capital injection in India in 1H17

Optimising our capital mix

Capital sustainability

Capital platform



Equity



Debt / hybrid



Reinsurance

Two key decisions

- Quantum of capital
- Form of capital (mix)

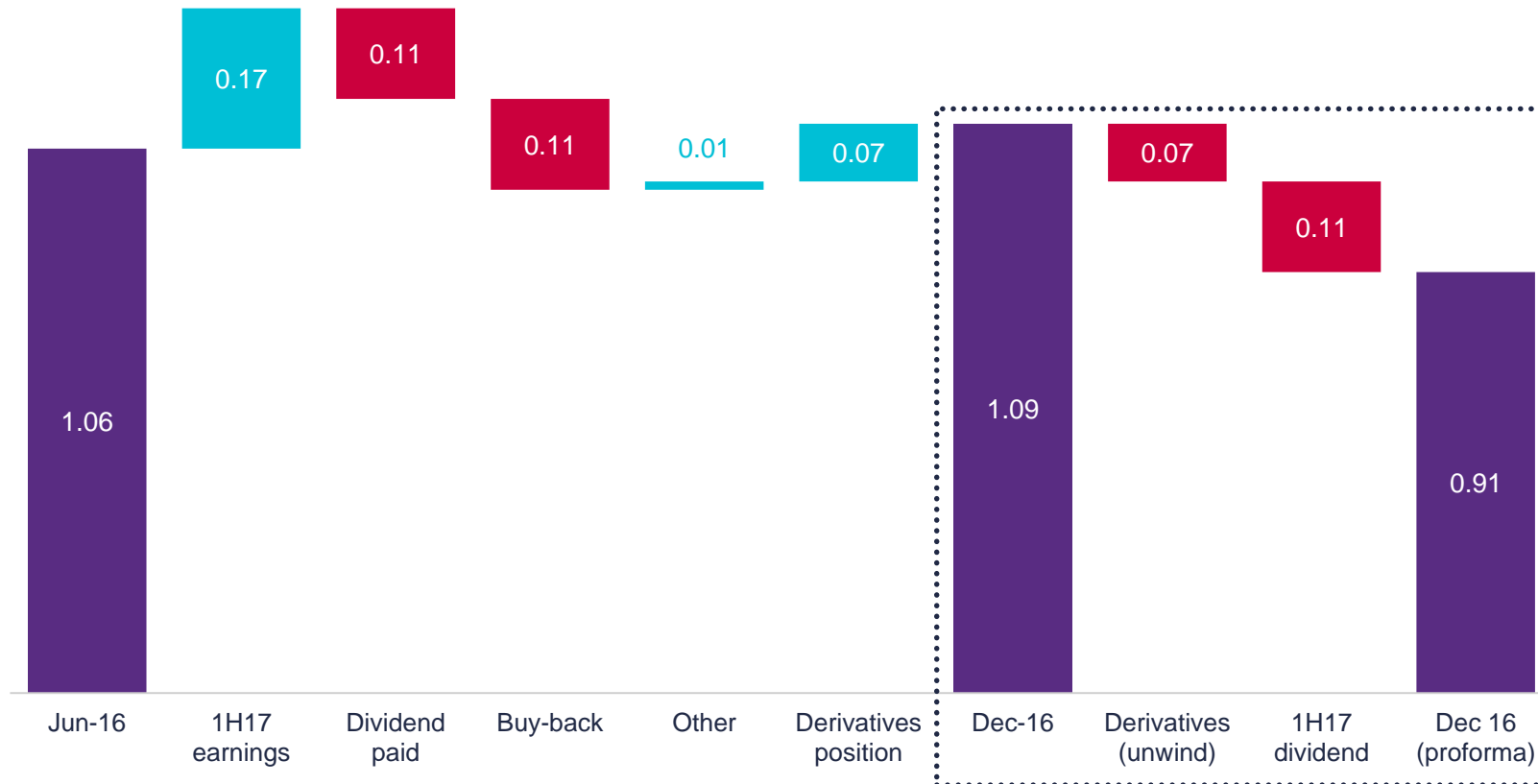
Capital mix trends

- Increased diversification
- Reduced emphasis on equity
- Greater use of reinsurance capital

Capital

Strong capital position maintained

CET1 movement since 30 June 2016



PCA of 1.81 – above benchmark range (1.4-1.6)

CET1 of 1.09 – upper end of benchmark range (0.9-1.1)

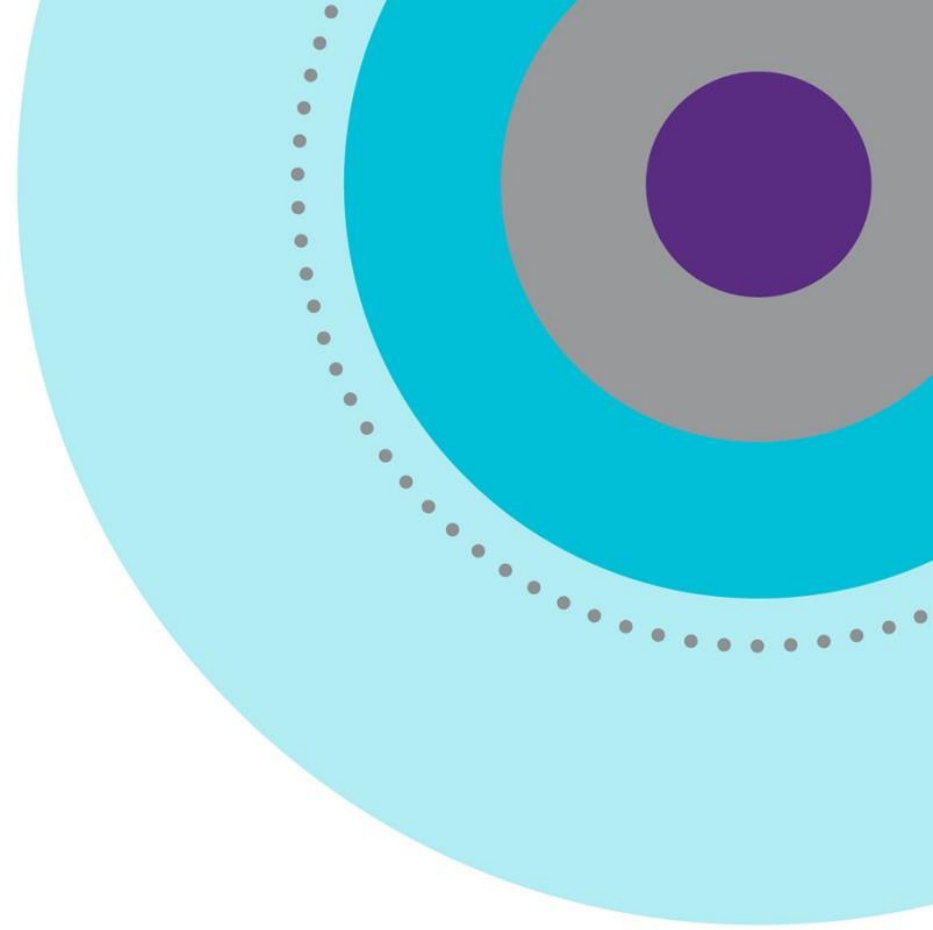
Position enhanced by tactical investment derivatives position (PCA +0.11, CET1 +0.07)

Proforma CET1 ratio still within benchmark range post-1H17 dividend

Outlook

Peter Harmer

Managing Director and Chief Executive Officer



FY17 outlook

GWP growth and reserve release expectations raised

FY17 guidance

GWP growth		Raised to 'low single digit'
Reported insurance margin		Maintained range of 12.5-14.5%

Underlying assumptions

1

Net losses from natural perils of \$680m

2

Reserve releases of at least 2% (previously 'at least 1%')

3

No material movement in foreign exchange rates or investment markets in 2H17

- GWP growth guidance raised from 'relatively flat' to 'low single digit'
 - Ongoing rate increases expected in short tail personal lines (notably motor) to counter claims inflation
 - Passed bottom of commercial cycle in Australia, early positive signs in New Zealand
 - Lower ESL collection in 2H17, ahead of abolition
- Reported insurance margin guidance of 12.5-14.5% maintained, with expected outcome around middle of range
 - Reserve release expectation raised by 100bps to 'at least 2%' following stronger than anticipated 1H17 releases
 - Slightly softer underlying profitability than originally anticipated - 2H17 consistent with 1H17, in face of ongoing claim cost pressures
 - Perils assumption in line with \$680m allowance maintained – Northern Sydney hailstorm event too early to quantify, FY17-specific cover of \$96m xs \$680m

Our value proposition

Delivering strong shareholder returns



Investment case

- Leading player with scale advantage in Australia and New Zealand (low single digit growth)
- Focused Asian growth opportunity – large player in our chosen markets (high single digit growth)
- Digitally-enabled insurer that is customer-led and data-driven
- Innovation in capital management
- Improved efficiencies

Value drivers



Fuelling drivers
(short to medium term)



Leading drivers
(longer term)



Shareholder value

Through-the-cycle targets

- Cash ROE 1.5x WACC
- High dividend (60-80% of cash earnings payout)
- Top quartile TSR
- ~10% compound EPS growth



For ownership details, see www.iag.com.au

We make your world a safer place



Appendix – Group Results

	1H16 A\$m	2H16 A\$m	1H17 A\$m
GROUP RESULTS			
Gross written premium	5,543	5,824	5,802
Gross earned premium	5,734	5,677	5,868
Reinsurance expense	(1,632)	(1,551)	(1,624)
Net earned premium	4,102	4,126	4,244
Net claims expense	(2,589)	(2,808)	(2,625)
Commission expense	(423)	(386)	(416)
Underwriting expense	(654)	(653)	(669)
Underwriting profit	436	279	534
Investment income on technical reserves	174	289	37
Insurance profit	610	568	571
Net corporate expense	(14)	(207)	(4)
Interest	(51)	(48)	(51)
Profit/(loss) from fee based business	10	(8)	(1)
Share of profit from associates	8	12	9
Investment income on shareholders' funds	38	59	105
Profit before income tax and amortisation	601	376	629
Income tax expense	(67)	(151)	(109)
Profit after income tax (before amortisation)	534	225	520
Non-controlling interests	(40)	(37)	(45)
Profit after income tax and non-controlling interests (before amortisation)	494	188	475
Amortisation and impairment	(28)	(29)	(29)
Profit attributable to IAG shareholders	466	159	446



Appendix – Group Ratios and Key Metrics

Insurance Ratios	1H16	2H16	1H17
Loss ratio	63.1%	68.1%	61.9%
Immunised loss ratio	62.7%	65.4%	63.9%
Expense ratio	26.2%	25.2%	25.6%
Commission ratio	10.3%	9.4%	9.8%
Administration ratio	15.9%	15.8%	15.8%
Combined ratio	89.3%	93.3%	87.5%
Immunised combined ratio	88.9%	90.6%	89.5%
Reported insurance margin	14.9%	13.8%	13.5%
Underlying insurance margin	14.2%	13.7%	12.6%
Key Financial Metrics (Total Operations)	1H16	2H16	1H17
Reported ROE (average equity) (% pa)	13.6%	4.7%	13.7%
Cash ROE (average equity) (% pa)	14.7%	10.8%	14.8%
Basic EPS (cents)	19.25	6.55	18.61
Diluted EPS (cents)	18.64	6.55	17.92
Cash EPS (cents)	20.81	14.97	19.98
DPS (cents)	13.00	13.00	13.00
Special DPS (cents)	10.00	n/a	n/a
Probability of adequacy	90%	90%	90%
NTA backing per ordinary share (\$)	1.37	1.30	1.28
PCA multiple	1.80	1.72	1.81

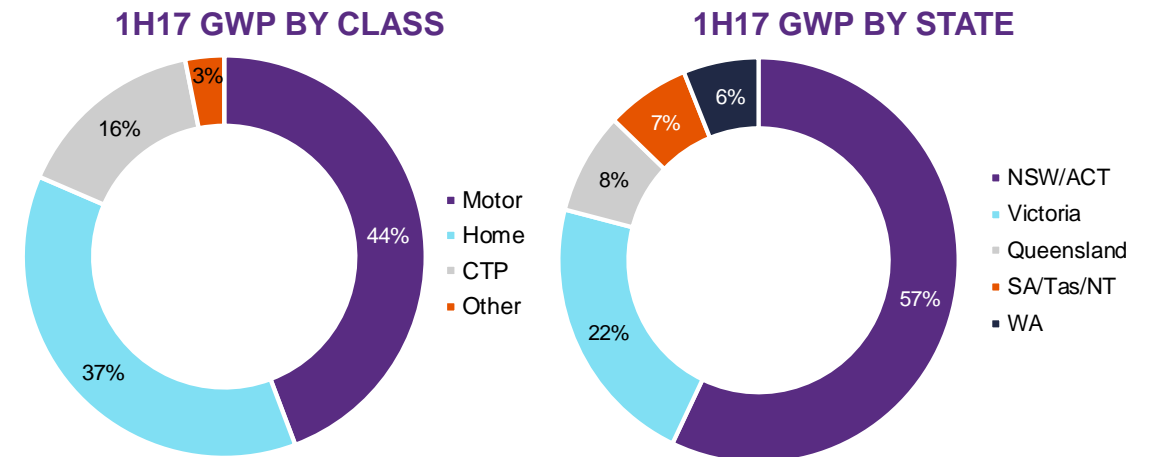
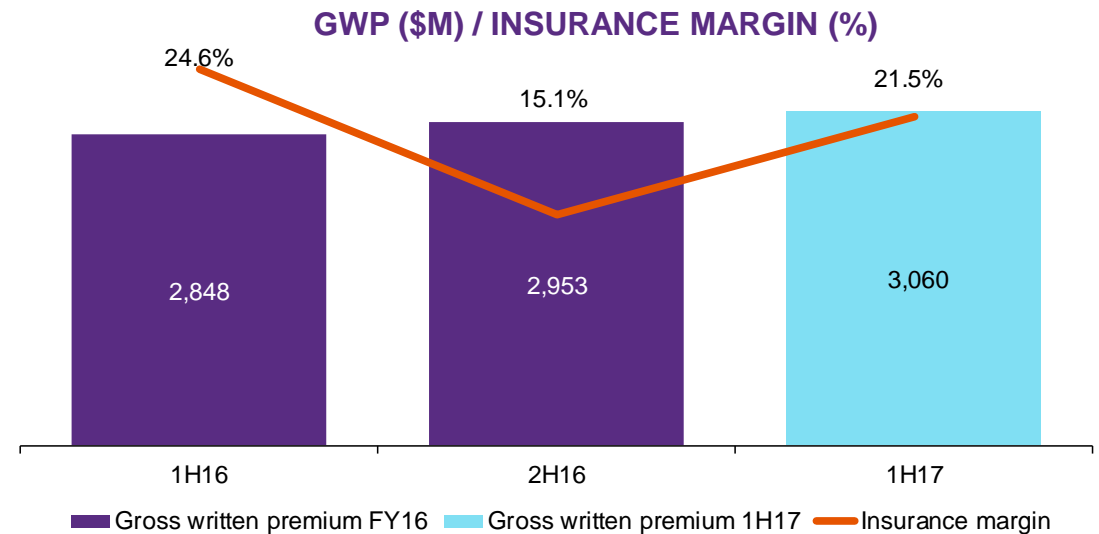
Appendix – Divisional Performance

DIVISION	1H16				1H17			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported A\$m	Growth %	Reported %	Underlying %	Reported A\$m	Growth %	Reported %	Underlying %
Consumer Division	2,848	1.6	24.6	15.5	3,060	7.4	21.5	14.1
Business Division	1,419	(6.3)	8.4	10.7	1,423	0.3	7.1	8.8
New Zealand	1,070	(4.1)	1.4	18.4	1,128	5.4	4.3	15.3
Asia	197	20.1	nm	nm	182	(7.6)	nm	nm
Corporate & Other	9	nm	nm	nm	9	nm	nm	nm
Total Group	5,543	(1.1)	14.9	14.2	5,802	4.7	13.5	12.6

Appendix – Consumer Division

CONSUMER DIVISION RESULTS	1H16 A\$m	2H16 A\$m	1H17 A\$m
Gross written premium	2,848	2,953	3,060
Gross earned premium	2,834	2,852	2,980
Reinsurance expense	(818)	(804)	(837)
Net earned premium	2,016	2,048	2,143
Net claims expense	(1,221)	(1,530)	(1,269)
Commission expense	(105)	(106)	(114)
Underwriting expense	(276)	(282)	(313)
Underwriting profit	414	130	447
Investment income on technical reserves	81	180	14
Insurance profit	495	310	461

Insurance Ratios	1H16	2H16	1H17
Loss ratio	60.6%	74.7%	59.2%
Immunised loss ratio	60.1%	70.9%	61.8%
Expense ratio	18.9%	19.0%	19.9%
Commission ratio	5.2%	5.2%	5.3%
Administration ratio	13.7%	13.8%	14.6%
Combined ratio	79.5%	93.7%	79.1%
Immunised combined ratio	79.0%	89.9%	81.7%
Reported insurance margin	24.6%	15.1%	21.5%
Underlying insurance margin	15.5%	16.5%	14.1%

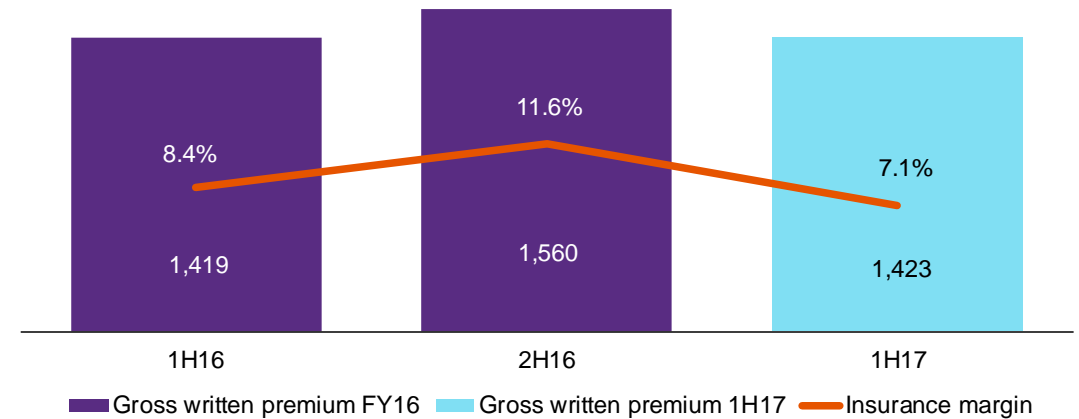


Appendix – Business Division

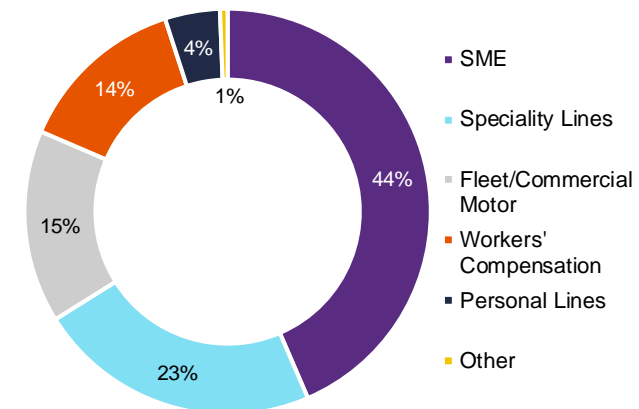
	1H16 A\$m	2H16 A\$m	1H17 A\$m
Gross written premium	1,419	1,560	1,423
Gross earned premium	1,597	1,525	1,550
Reinsurance expense	(413)	(406)	(417)
Net earned premium	1,184	1,119	1,133
Net claims expense	(748)	(719)	(667)
Commission expense	(185)	(162)	(173)
Underwriting expense	(226)	(222)	(217)
Underwriting profit	25	16	76
Investment income on technical reserves	75	114	5
Insurance profit	100	130	81
Profit/(loss) from fee based business	11	(7)	2
Share of profit from associates	1	-	-
Total divisional result	112	123	83

Insurance Ratios	1H16	2H16	1H17
Loss ratio	63.2%	64.3%	58.9%
Immunised loss ratio	61.1%	61.0%	61.7%
Expense ratio	34.7%	34.3%	34.5%
Commission ratio	15.6%	14.5%	15.3%
Administration ratio	19.1%	19.8%	19.2%
Combined ratio	97.9%	98.6%	93.4%
Immunised combined ratio	95.8%	95.3%	96.2%
Insurance margin	8.4%	11.6%	7.1%
Underlying insurance margin	10.7%	8.6%	8.8%

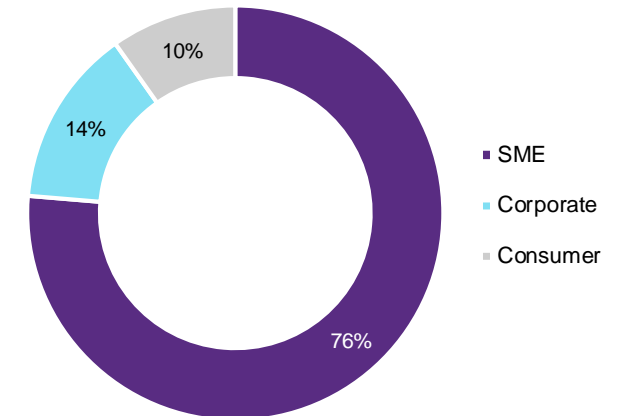
GWP (\$M) / INSURANCE MARGIN (%)



1H17 GWP BY CLASS



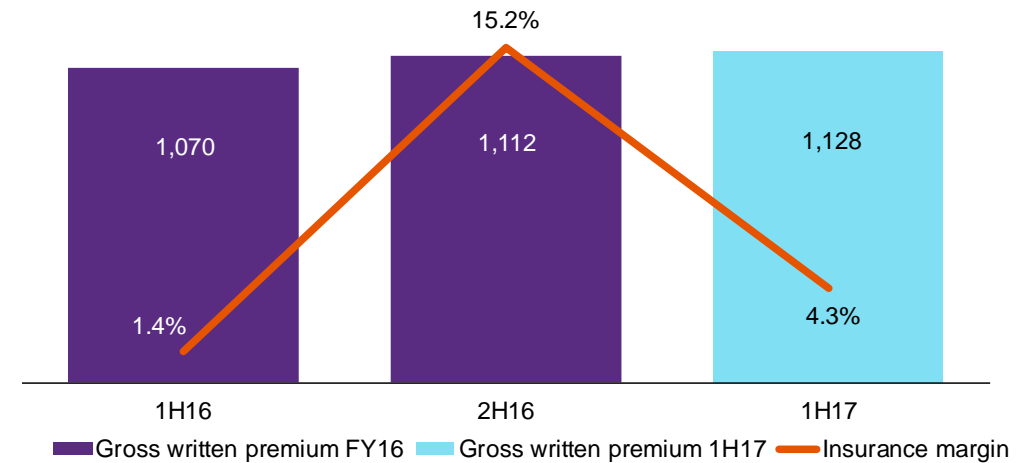
1H17 GWP BY SEGMENT



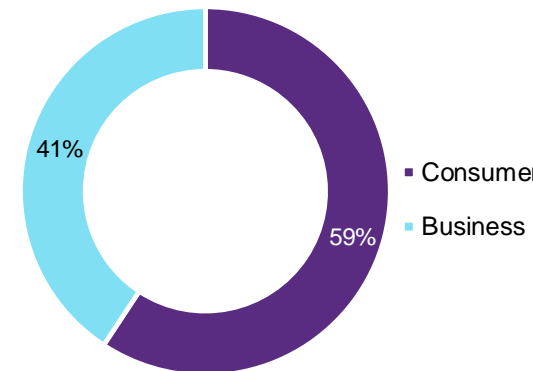
Appendix – New Zealand

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
NEW ZEALAND RESULTS			
Gross written premium	1,070	1,112	1,128
Gross earned premium	1,101	1,100	1,143
Reinsurance expense	(340)	(283)	(311)
Net earned premium	761	817	832
Net claims expense	(545)	(472)	(598)
Commission expense	(96)	(85)	(95)
Underwriting expense	(126)	(126)	(116)
Underwriting profit/(loss)	(6)	134	23
Investment income on technical reserves	17	(10)	13
Insurance profit	11	124	36
Profit from fee based business	1	-	-
Total divisional result	12	124	36
Insurance Ratios	1H16	2H16	1H17
Loss ratio	71.6%	57.8%	71.9%
Immunised loss ratio	73.6%	58.5%	72.0%
Expense ratio	29.2%	25.8%	25.3%
Commission ratio	12.6%	10.4%	11.4%
Administration ratio	16.6%	15.4%	13.9%
Combined ratio	100.8%	83.6%	97.2%
Immunised combined ratio	102.8%	84.3%	97.3%
Reported insurance margin	1.4%	15.2%	4.3%
Underlying insurance margin	18.4%	15.5%	15.3%

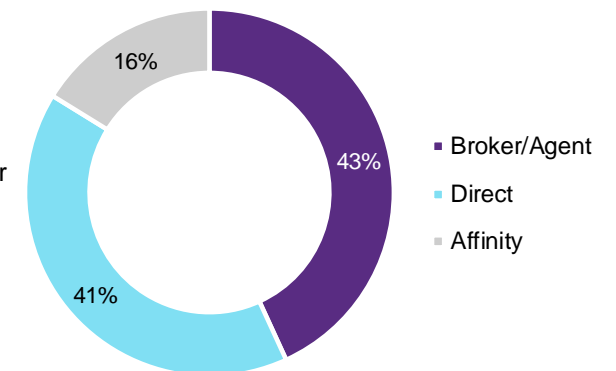
GWP (\$M) / INSURANCE MARGIN (%)



1H17 GWP BY CLASS

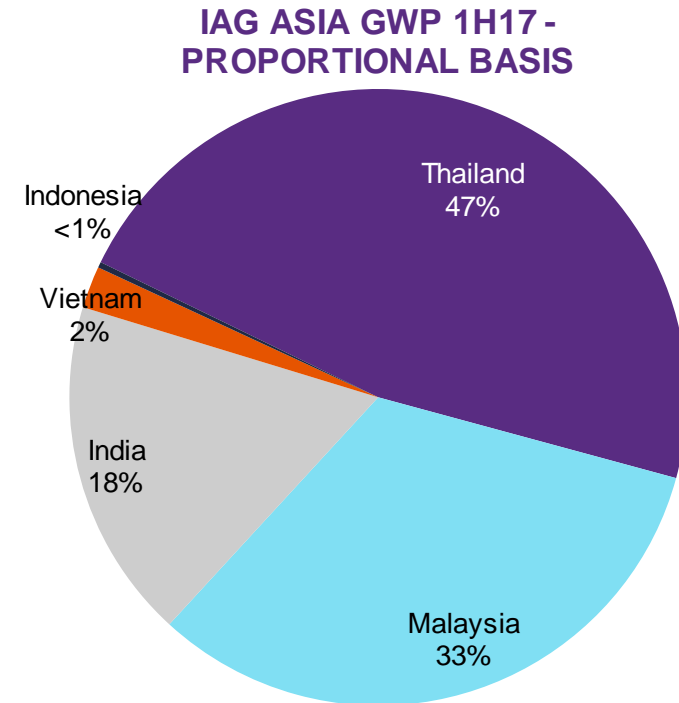


1H17 GWP BY CHANNEL



Appendix – Asia Division

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
ASIA RESULTS			
Gross written premium	197	189	182
Gross earned premium	193	193	186
Reinsurance expense	(57)	(54)	(53)
Net earned premium	136	139	133
Net claims expense	(75)	(82)	(89)
Commission expense	(35)	(32)	(33)
Underwriting expense	(25)	(24)	(23)
Underwriting profit/(loss)	1	1	(12)
Investment income on technical reserves	2	3	5
Insurance profit/(loss)	3	4	(7)
Share of profit from associates	7	12	9
Total divisional result	10	16	2



Important information

This presentation contains general information current as at 22 February 2017 and is not a recommendation or advice in relation to Insurance Australia Group Limited (IAG) or any product or service offered by IAG's subsidiaries. It presents financial information on both a statutory basis (prepared in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis. This presentation is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction.

The presentation should not be relied upon as advice as it does not take into account the financial situation, investment objectives or particular needs of any person. The presentation should be read in conjunction with IAG's other periodic and continuous disclosure announcements filed with the Australian Securities Exchange (also available at www.iag.com.au) and investors should consult with their own professional advisers.

No representation or warranty, express or implied, is made as to the currency, accuracy, adequacy, completeness or reliability of any statements (including forward-looking statements or forecasts), estimates or opinions, or the accuracy or reliability of the assumptions on which they are based.

Any forward-looking statements, opinions and estimates in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Neither IAG, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this presentation will actually occur and IAG assumes no obligation to update such information. In addition, past performance is no guarantee or indication of future performance.

To the maximum extent permitted by law, IAG, its subsidiaries and their respective directors, officers, employees, agents and advisers disclaim all liability and responsibility for any direct or indirect loss, costs or damage which may be suffered by any recipient through use of or reliance on anything contained in, implied by or omitted from this presentation.

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.