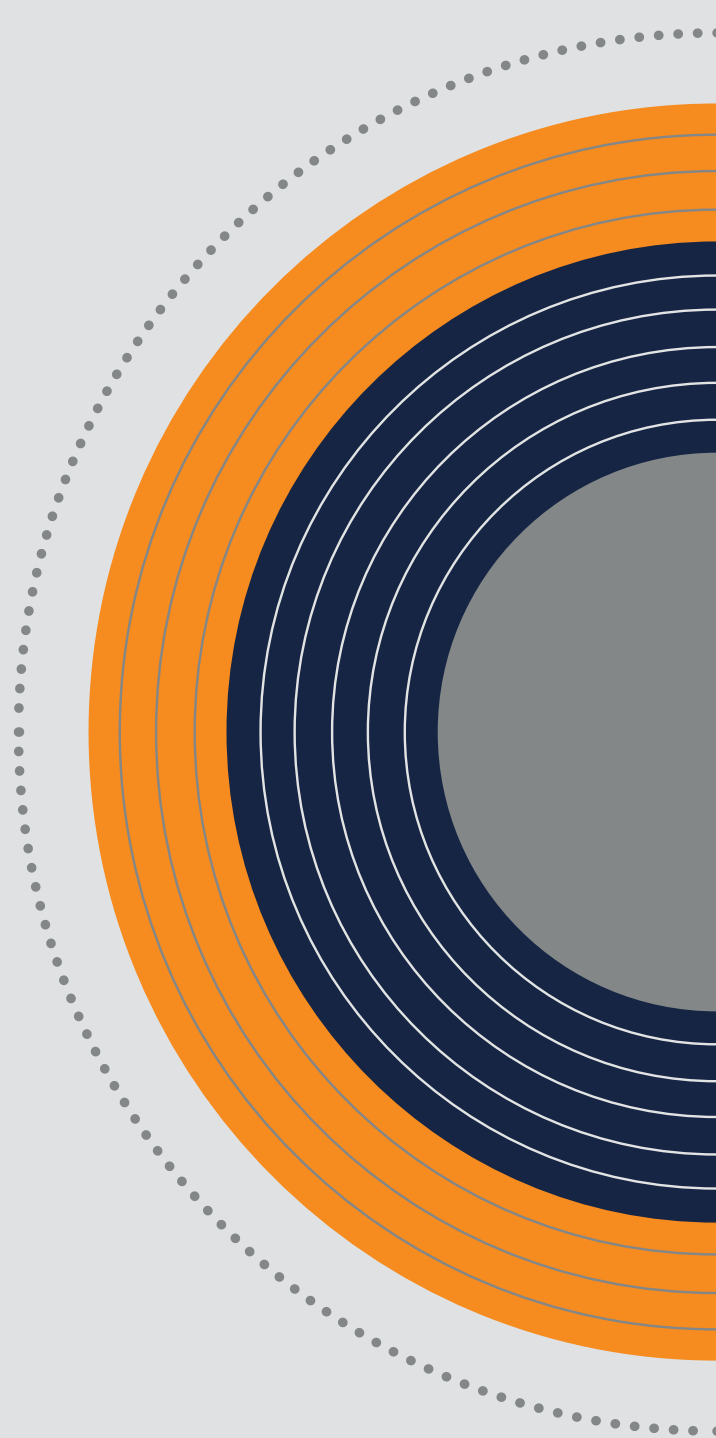

INVESTOR REPORT 1H17

22 February 2017



IMPORTANT INFORMATION

This report 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 report is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction.

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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.

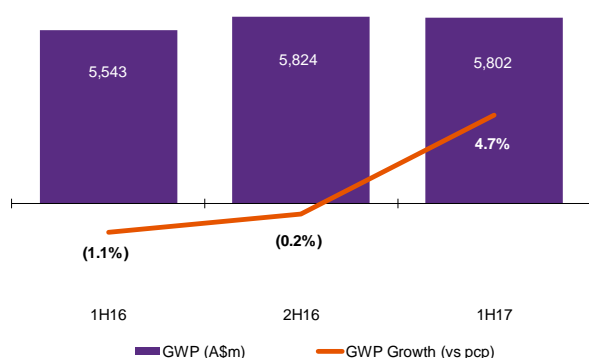
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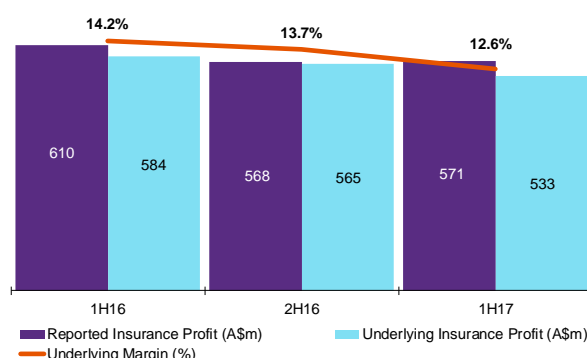
1H17 GROUP RESULTS

KEY RESULTS	1H16 A\$m	2H16 A\$m	1H17 A\$m	1H17 vs 1H16 Mvt
Gross written premium (GWP)	5,543	5,824	5,802	+4.7%
Net earned premium (NEP)	4,102	4,126	4,244	+3.5%
Insurance profit	610	568	571	-6.4%
Net profit after tax (NPAT)	466	159	446	-4.3%
Cash NPAT	504	363	479	-5.0%
Reported insurance margin	14.9%	13.8%	13.5%	-140bps
Underlying insurance margin	14.2%	13.7%	12.6%	-160bps
Cash return on equity (ROE)	14.7%	10.8%	14.8%	+10bps
Dividend (cents per share)	13.0	13.0	13.0	0%
Special dividend (cents per share)	10.0	n/a	n/a	n/a
Prescribed Capital Amount (PCA) multiple	1.80	1.72	1.81	+1bp
Common Equity Tier 1 Capital (CET1) multiple	1.23	1.06	1.09	-14bps

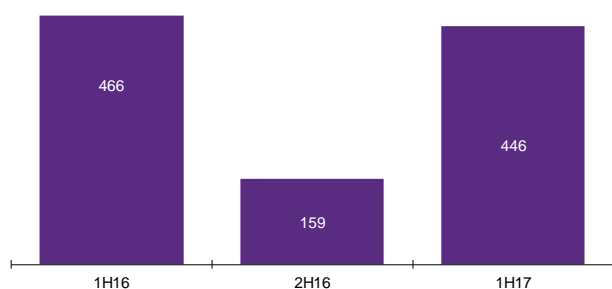
GWP GROWTH



INSURANCE PROFIT & MARGIN



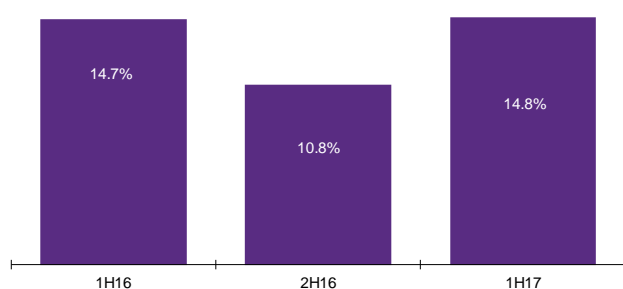
NET PROFIT AFTER TAX (A\$m)



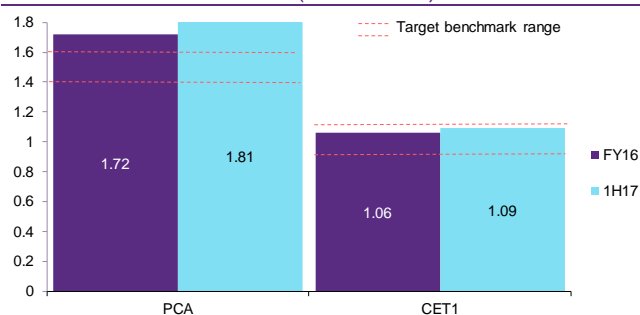
CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Sound operating performance in environment of increased claim cost pressures
- GWP growth of 4.7%, including rate response to claim cost pressures, favourable FX effect and increased levy collection
- Growing evidence that passed bottom of commercial cycle in Australia, initial positive signs in New Zealand
- Short tail personal lines businesses continue to perform well
- Long tail CTP continuing to bear elevated claim levels in NSW – reform delayed
- Lower underlying margin of 12.6%, incorporating small net negative from optimisation program and ~70bps adverse effect from higher perils allowance
- Optimisation program progressing to plan – net benefit anticipated from FY19 onwards
- Reported margin of 13.5% after higher than expected reserve releases (3.7% of NEP) offset by \$80m perils overrun against allowance
- Perils dominated by Kaikoura earthquake in New Zealand in November 2016 – net cost of \$117m
- Strong capital position maintained, above (PCA 1.81) or in upper half (CET1 1.09) of benchmark ranges
- Positive revision to FY17 GWP guidance, to low single digit growth (from ‘relatively flat’)
- Reported insurance margin guidance maintained at 12.5-14.5% - slightly softer than originally expected underlying performance offset by increased reserve release expectation (at least 2% of NEP)

1H17 OVERVIEW

IAG continued to deliver a sound operating performance in 1H17, in an environment of increased claim cost pressures. GWP growth was slightly higher than expected, as IAG responded to those claim cost issues via increased premium rates, while the Group’s underlying margin was slightly softer than expected.

Short tail personal lines businesses in both Australia and New Zealand generated solid growth. While higher rates dominated GWP growth in the period, these were supplemented by ongoing volume advances in motor, in both markets. Underlying short tail profitability was strong.

Long tail CTP profitability remained under pressure, particularly in NSW, where IAG has a market-leading position. Regular rate increases in that market have countered claims inflation, serving to check any further deterioration in current year profitability, however returns were poor. Indicated scheme reform has been delayed.

Commercial lines reflected the earned-through effect of cumulative past rate reductions and volume loss. In Australia, there is evidence of pricing having passed the bottom of the cycle, with business retention levels proving better than expected. This resulted in a slightly improved underlying margin from Business Division over the preceding half. In New Zealand, early signs of commercial rate improvement are emerging.

Asia delivered a lower result which was impacted by increased competitive pressures in both Thailand and Malaysia. This was reflected in flat proportional GWP, despite strong ongoing growth in India.

Compared to 1H16, IAG’s reported insurance profit included an increase in net natural peril claim costs of over \$140m (\$80m over allowance), influenced by the Kaikoura earthquake event in New Zealand in November 2016. Peril costs were countered by higher prior period reserve releases from Australian long tail classes, which exceeded expectations.

IAG’s optimisation program saw a range of cost-out initiatives commenced in 1H17. Progress to date has been in line with expectations. As foreshadowed, a small net negative was borne within the 1H17 insurance profit, as modest initial benefits were more than offset by related implementation costs.

Sound result in environment of increased claim cost pressures

Optimisation program progressing to plan

1. EXECUTIVE SUMMARY

GROSS WRITTEN PREMIUM (GWP)

GWP growth of 4.7% was slightly higher than the expectation built into IAG's initial 'relatively flat' GWP growth guidance for FY17. Driving this better than expected outcome were:

- Rate response to claim cost pressures in short tail lines;
- Higher than anticipated retention of business in Australian commercial lines; and
- An overall positive foreign exchange translation effect (+0.8%).

In addition, the 1H17 GWP outcome contained:

- An initial nearly-\$40m contribution from IAG's entry into the South Australian CTP market from 1 July 2016, within Consumer Division;
- The absence of over \$60m of GWP owing to the divestment of the Swann motor dealership business in early August 2016, within Business Division; and
- An approximately \$34m increment from higher collection of the Emergency Services Levy (ESL) in NSW. This effect will reverse in 2H17, ahead of ESL's abolition from 1 July 2017.

UNDERLYING MARGIN

IAG's underlying margin of 12.6% (1H16: 14.2%) was slightly softer than anticipated, and included:

- An adverse impact of ~70bps from a \$40m (13%) increase in natural perils allowance to \$340m;
- The cumulative earned-through effect of rate reductions and volume loss in commercial lines;
- A slight drag from the Satellite business (in the Consumer Division), which delivered strong growth but operates at a lower level of profitability;
- A lower result from the consolidated Asian operations (Thailand, Vietnam and Indonesia), which collectively moved into loss;
- The absorption of a small net cost from the Group's optimisation program; and
- Lower investment returns.

The impact of the Berkshire Hathaway quota share was similar to 1H16.

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

IAG's 1H17 reported insurance profit of \$571m was over 6% lower than 1H16 (\$610m). The reported insurance margin of 13.5% (1H16: 14.9%) included:

- Net natural peril claim costs of \$420m (1H16: \$278m), which exceeded allowance by \$80m, with the New Zealand earthquake event in November 2016 contributing \$117m;
- A favourable credit spread impact of \$5m, compared to an adverse effect of \$15m in 1H16; and
- Higher than expected prior period reserve releases of \$155m, equivalent to 3.7% of NEP, up from \$60m (1.5% of NEP) in 1H16. These were derived from Australian long tail classes, principally CTP.

Slightly higher than expected GWP, driven by short tail rate increases and Australian commercial line retention

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

Reported insurance margin of 13.5%, after increased peril costs partially offset by higher than expected reserve releases

1. EXECUTIVE SUMMARY

DIVISIONAL HIGHLIGHTS

DIVISION	1H16				1H17			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
	A\$m	%	%	%	A\$m	%	%	%
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

The Australian **Consumer Division** (53% of Group GWP) produced a strong, but slightly lower, underlying margin of 14.1%. Short tail home and motor lines continued to perform well, with higher than originally expected GWP growth of 6.6% largely reflecting the response to increased claim cost pressures. Long tail CTP GWP increased by over 12%, reflecting IAG's entry into the South Australian market from 1 July 2016 and cumulative rate increases in NSW to combat ongoing elevated claim frequency. Current year NSW CTP profitability remained poor, but was consistent with the prior comparable period. The business' reported margin, of 21.5%, benefited from reserve releases well in excess of expectations and a favourable perils outcome.

Strong performances from consumer businesses in Australia and New Zealand

The Australian **Business Division** generated a better-than-expected flat GWP result, which included the divestment of the car dealership portion of Swann Insurance at the beginning of August 2016. Like-for-like GWP growth exceeded 4%, with business retention levels beating expectations and higher average rates being achieved, building on the steady momentum evident since the end of 1H16. A lower underlying margin reflected the earned-through effect of past rate and volume declines, but represented a modest improvement over 2H16. A lower reported margin housed an adverse natural peril claim cost experience and slightly lower reserve releases.

New Zealand continued to deliver a strong underlying performance, with a lower underlying margin still exceeding 15% and bearing the impact of increased claim cost pressures and a soft commercial market. The reported margin of 4.3% included a net claim cost of approximately \$117m from the Kaikoura earthquake event in November 2016. GWP growth of over 5% included a favourable foreign exchange translation effect, with local currency GWP growth closer to 1%. This comprised sound growth in personal lines offset by further softness in commercial lines, as underwriting disciplines were maintained.

Asia reported a decline in consolidated GWP of over 7%, as lower premium from intensified price competition in Thailand was exaggerated by an adverse foreign exchange translation effect. Asia's overall earnings contribution decreased to \$2m (1H16: \$10m), with both Thailand and Malaysia reporting lower contributions from increased competitive pressures and poorer loss ratios. The combined contribution from the developing markets of India, Vietnam and Indonesia improved, based on a move into profit by India on the back of better claim and expense outcomes.

1. EXECUTIVE SUMMARY

NET PROFIT AFTER TAX / ROE

Net profit after tax of \$446m was approximately 4% lower than 1H16 (\$466m). This outcome included:

- A significantly higher contribution from investment income on shareholders' funds, incorporating stronger equity market returns; and
- A higher tax rate of approximately 17%, compared to 1H16 (11%). Both periods included favourable tax effects on FY11-related earthquake reinsurance recoveries by offshore captive vehicles, while 1H16 also included the favourable resolution of a tax audit associated with IAG's former UK operations. The effective tax rate is expected to return to a more normal level, in the high 20s, in future periods.

Reported return on equity (ROE) in 1H17 was 13.7%, while cash ROE was 14.8%. This compares to IAG's through-the-cycle target of approximately 1.5 times weighted average cost of capital (WACC), which equates to an ROE of approximately 15% on a longer term perspective.

DIVIDEND

The Board has determined to pay an interim fully franked dividend of 13.0 cents per ordinary share (1H16: 13.0cps), equating to a cash payout ratio of 64.3%.

CAPITAL

IAG's capital position remains strong. The Prescribed Capital Amount (PCA) multiple stood at 1.81, at 31 December 2016, compared to the Group's targeted range of 1.4-1.6. The Common Equity Tier 1 (CET1) ratio was 1.09, against a target benchmark of 0.9-1.1.

At the 1H17 balance date, the Group's investment portfolios held a tactical derivatives position that increased the regulatory capital position through a reduction in the asset risk charge. Excluding this, the Group's capital position comprises an adjusted PCA ratio of 1.70 and a CET1 ratio of 1.02.

After further allowance for the 1H17 dividend of 13 cents per share, which will be paid at the end of March 2017, the PCA multiple at 31 December 2016 would be at the upper end of IAG's benchmark range, while the CET1 multiple would be at the lower end of the equivalent target range.

IAG's debt to total tangible capitalisation ratio at 31 December 2016 decreased to 35.4%, close to the mid-point of its targeted 30-40% range. During 1H17 IAG's debt reduced by over \$180m, following a sequence of capital management initiatives.

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 31 December 2016.

Cash ROE of 14.8%, close to long term target

Unchanged interim dividend, equivalent to 64.3% of cash earnings

Strong capital position maintained

1. EXECUTIVE SUMMARY

FY17 OUTLOOK

IAG continues to expect to record a sound operating performance in FY17.

Following 1H17 GWP growth of 4.7%, IAG has raised its FY17 GWP guidance to one of 'low single digit growth', compared to its previous 'relatively flat' prediction.

The slightly improved top line outlook reflects:

- Higher than originally anticipated rate increases across short tail classes, in response to claims inflation pressures, with both aspects expected to continue to feature in 2H17 performance; and
- Better than expected retention rates within Business Division in 1H17.

GWP growth in 2H17 (vs 2H16) will contain the one-off effects of:

- A further contribution from IAG's entry into the South Australian CTP market, expected to be similar to 1H17's contribution of \$37m;
- The absence of GWP from the divested Swann Insurance car dealership business, of the order of \$70m in 2H17; and
- Reduced contribution from the collection of ESL in NSW, ahead of its abolition with effect from 1 July 2017.

IAG has maintained its FY17 reported margin guidance of 12.5-14.5%, with an expected outcome around the middle of the range. This incorporates:

- Slightly softer underlying profitability than originally anticipated, with 2H17 expected to be consistent with 1H17 in the face of continued claim cost pressures; and
- A compensatory increase in prior period reserve release expectations following the higher than expected 1H17 outcome.

Underlying assumptions behind the reported margin guidance are:

- Net losses from natural perils in line with allowance of \$680m (unchanged);
- Prior period reserve releases of at least 2% of NEP (previously 'at least 1%');
- No material movement in foreign exchange rates or investment markets in 2H17; and
- A small net negative from optimisation program initiatives, as early benefits are outweighed by related costs (unchanged).

It is too early to determine the net cost from the Northern Sydney hailstorm on 18 February 2017. In this guidance IAG has assumed the net cost from this event together with further perils in FY17 will be within the current perils allowance and available reinsurance cover. IAG's reinsurance cover, post-quota share, comprises:

- A calendar 2017 main catastrophe program which limits a first event exposure to \$200m;
- A calendar 2017 aggregate cover which provides \$380m of protection excess of \$260m, with qualifying events capped at \$180m excess of \$20m per event; and
- An FY17-specific cover which provides \$96m of protection directly above the \$680m perils allowance.

While IAG now expects prior period reserve releases of at least 2% of NEP in FY17, it remains the Group'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.

FY17 GWP growth guidance raised to 'low single digit'

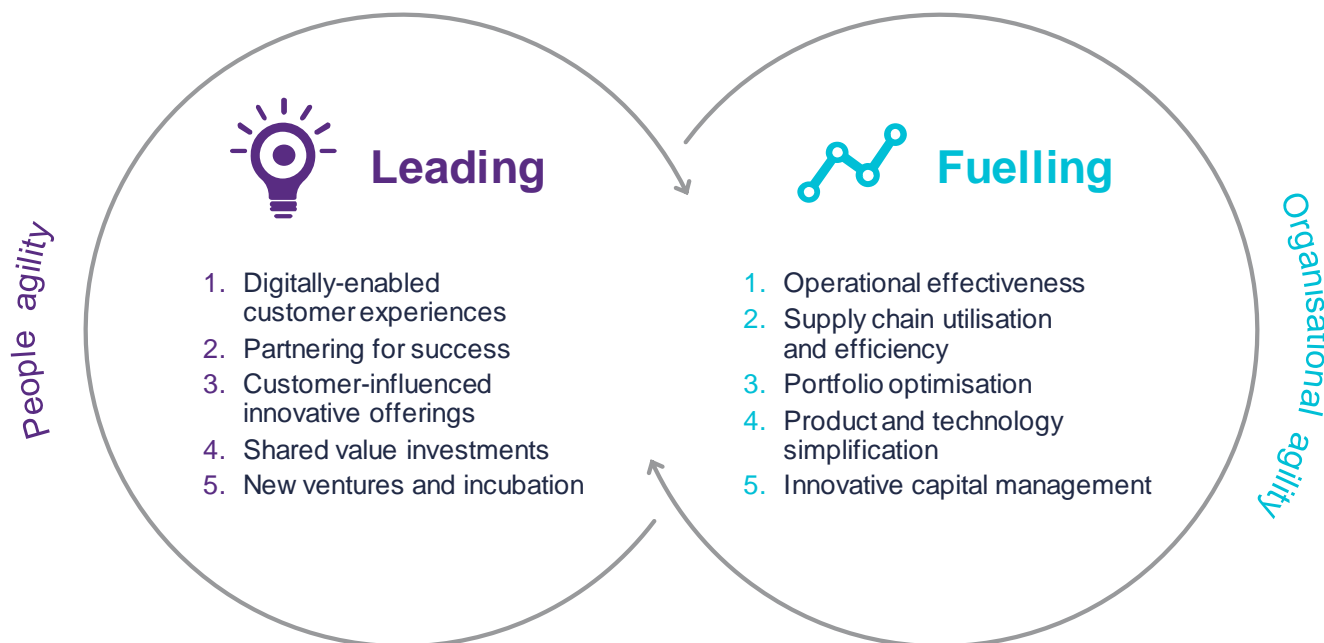
Reported insurance margin guidance maintained at 12.5-14.5% - underlying performance in 2H17 consistent with 1H17, increased reserve release expectation

2. STRATEGY

OUR PURPOSE, OPPORTUNITY AND PROMISE

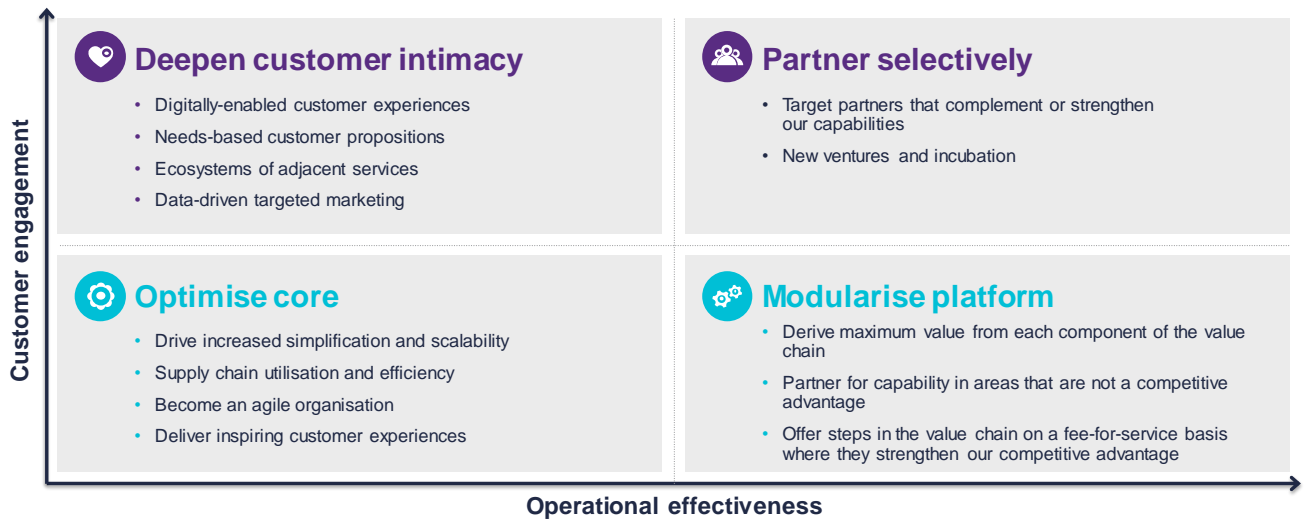


TWO STRATEGIC THEMES

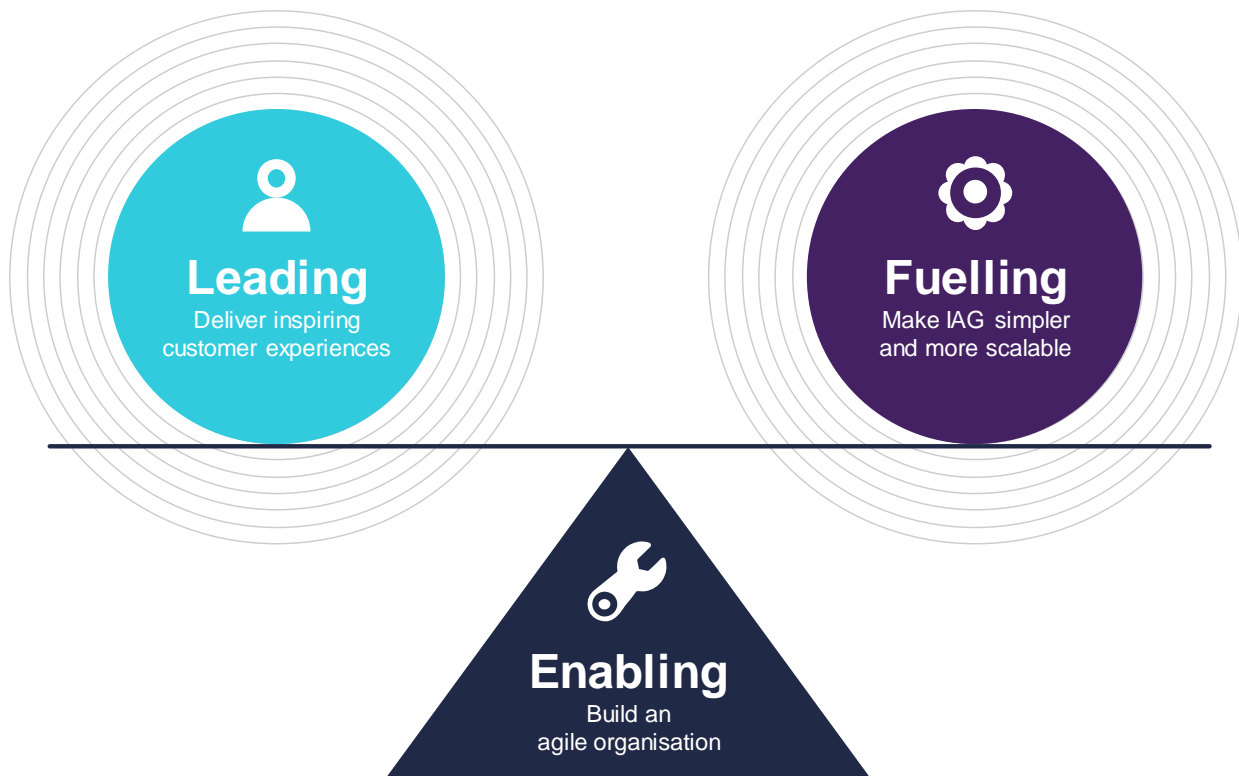


2. STRATEGY

STRATEGIC FRAMEWORK – PREPARING IAG FOR MULTIPLE FUTURES



OUR STRATEGIC PRIORITIES



3. GROUP RESULTS

FINANCIAL PERFORMANCE

	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
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

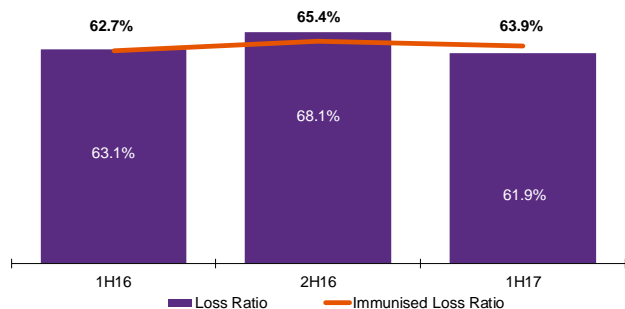
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A\$m	Balance Sheet (spot rate)		Income Statement (average rate)		
	1H16	2H16	1H17	1H16	1H17
New Zealand dollar	1.0672	1.0451	1.0388	1.0966	1.0514
Thai baht	26.2743	26.1575	25.8331	25.6805	26.4550
Malaysian ringgit	3.1293	3.0011	3.2355	3.0067	3.1497
Indian rupee	48.2625	50.3018	49.0196	47.2813	50.6073

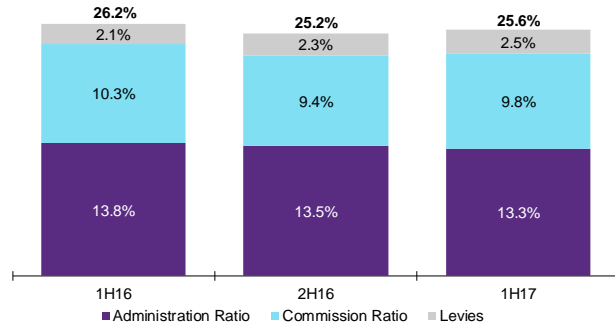
3. GROUP RESULTS

INSURANCE RATIOS

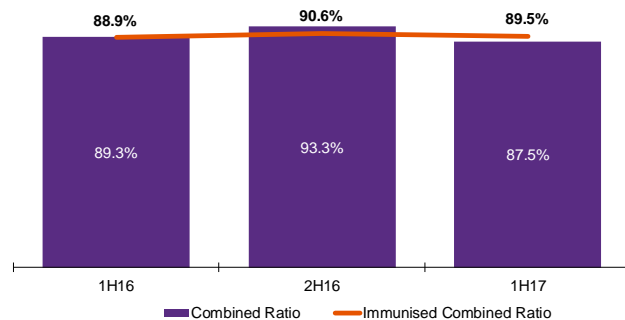
LOSS RATIO



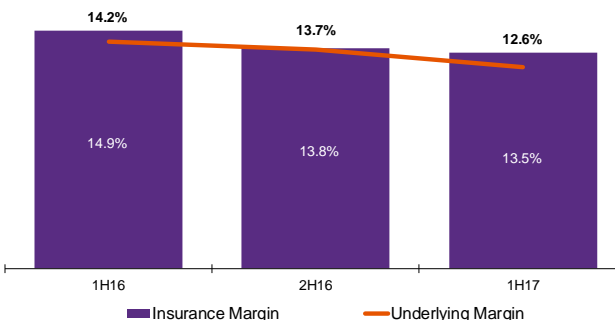
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



PREMIUMS

GWP grew by 4.7% in 1H17, compared to 1H16, and was ahead of initial expectations. Total GWP of \$5,802m included:

- Solid short tail personal lines GWP growth across Australia and New Zealand, largely rate-driven and countering claims inflation, particularly in motor;
- Double digit growth in long tail CTP GWP, the majority of which was derived from the initial contribution from IAG's participation in the South Australian market; and
- Flat to lower commercial lines GWP, with slightly contrasting positions in Australia and New Zealand. Like-for-like growth was achieved in Australia, while tough conditions led to a small decline in New Zealand.

Australian GWP included an approximately \$34m increment from higher collection of ESL in NSW. Reduced collection of ESL is anticipated in 2H17 ahead of this levy's abolition from 1 July 2017.

The overall foreign exchange translation effect was favourable, adding 80bps to the total GWP growth outcome. This comprised a favourable effect in New Zealand, partially offset by an adverse translation movement in Asia.

Comparing 1H17 GWP with 1H16 on a divisional basis:

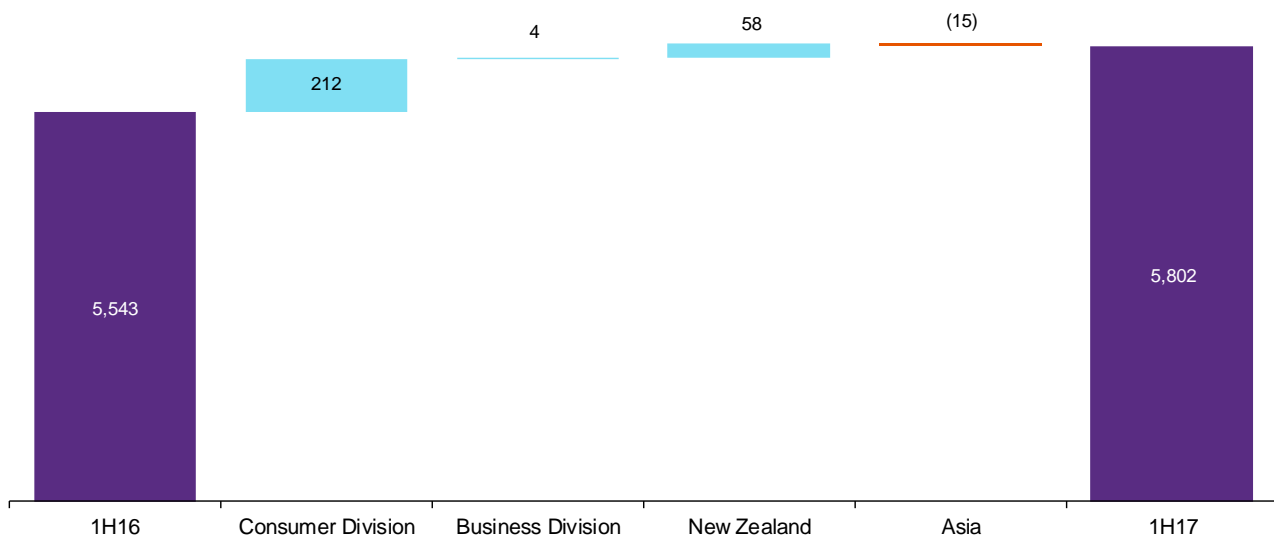
- The Australian **Consumer Division** grew its GWP by 7.4%, to \$3,060m, with growth derived from rate increases to counter claim inflation issues in motor, higher average sums insured and ESL collection in home, and a greater than 12% advance from CTP which was largely fuelled by an initial \$37m contribution from entry into the South Australian market;

GWP growth of 4.7% in 1H17

3. GROUP RESULTS

- The Australian **Business Division**'s GWP was relatively flat, increasing 0.3% to \$1,423m, despite divestment of the Swann Insurance car dealership business which reduced GWP by approximately \$61m. Like-for-like GWP increased by over 4%, and included growing rate increase momentum and higher than expected retention levels;
- **New Zealand** GWP rose by 5.4%, to \$1,128m, inflated by a favourable exchange rate movement. Local currency GWP grew by just over 1%, with sound growth in personal lines, from a mix of rate and volume, largely offset by the impact of highly competitive conditions on commercial lines; and
- In **Asia**, consolidated GWP declined by 7.6%, to \$182m, reflecting intensified price competition in the Thai market, accentuated by an adverse foreign exchange translation effect. On a proportional basis, like-for-like GWP was flat, with continued strong growth in India offset by lower reported GWP in Thailand and Malaysia.

GWP – 1H17 VS. 1H16 (A\$M)



INSURANCE MARGIN

IAG's underlying insurance performance was slightly weaker than anticipated, with the Group producing an underlying margin of 12.6%, compared to 14.2% in 1H16 and 13.7% in 2H16.

Slightly softer than anticipated underlying margin of 12.6%

Factors behind the lower 1H17 underlying margin outcome were:

- An adverse impact of ~70bps from a \$40m (13%) increase in natural perils allowance to \$340m, representing 8.0% of NEP (1H16: \$300m, 7.3% of NEP);
- The cumulative earned-through effect of rate reductions and volume loss in commercial lines;
- A slight drag from Consumer Division's Satellite business, which has delivered strong growth but operates at a lower level of profitability;
- A lower result from consolidated Asian operations (Thailand, Vietnam and Indonesia), after inclusion of allocated regional support and development costs;
- A greater than \$50m 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;

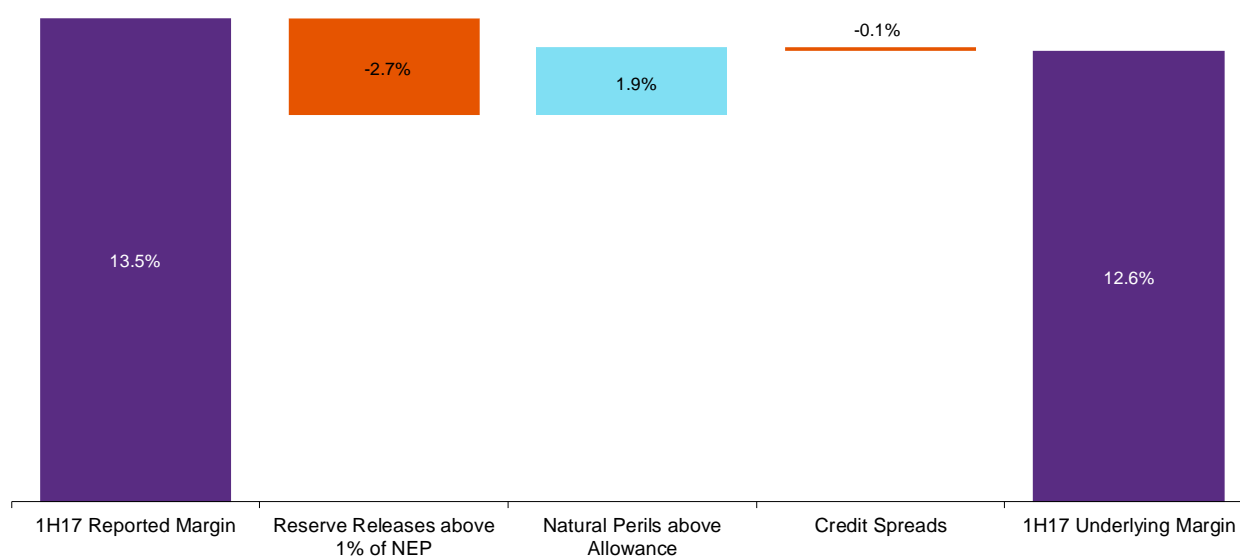
3. GROUP RESULTS

- A small net cost from the Group’s optimisation program, which has been absorbed within the insurance profit; and
- Lower investment returns.

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 1H17 insurance margin of 13.5% was lower than 1H16 (14.9%) and contained a net negative from the combined effect of:

- A greater than \$140m increase in net natural peril claim costs, to \$420m;
- A favourable movement in credit spread impacts of \$20m, with a positive impact of \$5m from the narrowing of spreads in 1H17 contrasting with a negative contribution of \$15m in 1H16 as spreads widened; and
- A \$95m increase in prior period reserve releases to \$155m, comprising higher than expected releases from CTP and the absence of 1H16’s increase to risk margin for the February 2011 Canterbury earthquake.

Lower reported margin of 13.5%, including adverse perils outcome

Individual divisional insurance margin outcomes in 1H17 were:

- A strong, but lower, underlying margin of 14.1% from the Australian **Consumer Division**, which bore ongoing pressure from high claims frequency in NSW CTP and a slight drag on overall profitability from the rapidly growing, yet relatively small, Satellite operation. The reported margin of 21.5% included higher than anticipated prior period CTP-related reserve releases, equivalent to 6.3% of NEP;
- A lower underlying margin of 8.8% from the Australian **Business Division**, which reflected the earned-through effect of reduced GWP in prior periods, but which was modestly higher than 2H16 (8.6%). The division’s reported margin was 7.1%, with an adverse peril outcome similar to that of 1H16;
- A continued strong performance from **New Zealand**, with an underlying margin of 15.3% pushed lower than 1H16 by increased attritional claim levels. The division’s reported margin was considerably lower, at 4.3%, largely owing to the net claim cost of approximately \$117m from the Kaikoura earthquake event in November 2016; and

Relatively strong underlying performances from Consumer and New Zealand, while Business’ profitability consistent with 2H16

3. GROUP RESULTS

- An insurance loss from **Asia** of \$7m, representing a negative turnaround of \$10m compared to 1H16. This weaker result was driven by intensified price competition and a prior period reserve strengthening in Thailand.

	1H16	2H16	1H17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	60	147	155
Natural perils	(278)	(381)	(420)
Natural peril allowance	300	300	340
Credit spreads	(15)	(22)	5
Reserve releases	1.5%	3.5%	3.7%
Natural perils	(6.7%)	(9.2%)	(9.9%)
Natural peril allowance	7.3%	7.3%	8.0%
Credit spreads	(0.4%)	(0.5%)	0.1%

QUOTA SHARES

IAG has two quota shares in place:

- An agreement with Munich Re in respect of 30% of IAG's CTP book, which was extended for a minimum four-year period from 1 July 2016 and expanded to include CTP in South Australia from that date; and
- A ten-year whole-of-account arrangement with Berkshire Hathaway in respect of 20% of IAG's consolidated business, which commenced on 1 July 2015.

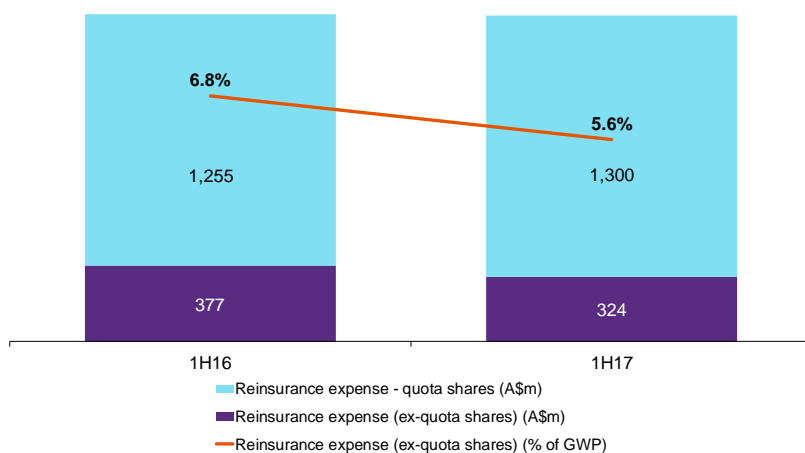
The quota shares' favourable effect on IAG's 1H17 underlying margin ratio was similar to that of the comparable period.

REINSURANCE EXPENSE

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

The 1H17 expense of \$1,624m includes \$1,300m from quota share-related effects, which is a 3.6% increase over 1H16 (\$1,255m) and reflects GWP growth.

REINSURANCE EXPENSE



The non-quota share reinsurance expense reduced by 14% compared to 1H16, to \$324m or 5.6% of GWP (1H16: 6.8%). This was driven by:

Favourable margin effect from quota shares, similar to 1H16

Lower non-quota share reinsurance expense incorporates favourable catastrophe renewal in 2016

3. GROUP RESULTS

- Reduced required cover in calendar 2016, following inception of the quota share agreement with Berkshire Hathaway; and
- Lower catastrophe reinsurance costs, stemming from the favourable calendar 2016 renewal.

CLAIMS

The higher 1H17 immunised loss ratio of 63.9% (1H16: 62.7%) was driven by:

- Higher net natural peril claim costs outweighing the impact of increased prior period reserve releases; and
- Some upwards pressure from attritional claims inflation, notably in New Zealand.

The 1H17 reported loss ratio of 61.9% was lower than 1H16 (63.1%). In addition to reserve release and peril movements, it contains a favourable risk free discount rate adjustment of nearly \$90m (after inclusion of foreign exchange effects), compared to an adverse impact of \$18m in 1H16.

IAG's underlying claims ratio (excluding reserve release, peril and discount rate effects) was slightly higher than 1H16. A feature of 1H17 was higher than expected claims inflation in motor, which was countered by stronger premium rate increases than those originally envisaged. High levels of claim frequency and legal representation persisted in long tail NSW CTP.

Reserve Releases

The 1H17 net claims expense includes \$155m of prior period reserve releases, equivalent to 3.7% of NEP (1H16: 1.5%), compared to IAG's initial FY17 guidance of at least 1% of NEP.

The higher level of prior period reserve releases, compared to 1H16, reflects:

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

The level of 1H17 reserve releases has contributed to a reassessment of FY17 expectations, which have increased to at least 2% of NEP (previously 'at least 1%').

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
RESERVE RELEASES			
Reserve releases	60	147	155
Impact on insurance margin	1.5%	3.5%	3.7%

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.

Natural Perils

The 1H17 net claims expense included \$420m (1H16: \$278m) of losses from natural perils (net of reinsurance), compared to an allowance of \$340m. The net effect of natural perils (after allowance) was an unfavourable impact on the reported insurance margin of 1.9% (1H16: favourable impact of 0.6%).

Higher loss ratio from increased peril costs and element of attritional claims inflation

Higher reserve releases driven by CTP, plus absence of earthquake risk margin increase

Net natural peril claim costs \$80m above allowance

3. GROUP RESULTS

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
NATURAL PERILS			
Natural peril claim costs	(278)	(381)	(420)
Natural peril allowance	300	300	340
Impact on insurance profit	22	(81)	(80)
Impact on insurance margin	0.6%	(1.9%)	(1.9%)

IAG experienced a relatively active period for natural peril events, and benefited from \$106m of protection (post-quota share) from the calendar 2016 catastrophe reinsurance aggregate cover. The most significant natural peril event during the half was the Kaikoura earthquake in New Zealand, in November 2016, which produced a net claim cost of \$117m.

1H17 NATURAL PERIL COSTS BY EVENT	A\$m
South Australia rain, wind and storms (September 2016)	26
Melbourne wind storm (October 2016)	15
Adelaide hail storm and New Zealand storms (November 2016)	86
Kaikoura earthquake (November 2016)*	117
Rain storms - WA, NT, SA and Victoria (December 2016)*	20
Other events (<\$15m)	156
Total	420

* Net of reinsurance recoveries.

Comparable peril experience in 1H16 saw a sequence of medium-sized events. Six of these were restricted to a net cost of \$20m each through activation of the Group's calendar 2015 aggregate cover, which reduced total claim costs by approximately \$130m in 1H16.

Attritional events (below \$15m in size) were slightly higher than 1H16 (\$139m).

EXPENSES

Total operating expenses (commission and underwriting) were \$1,085m, compared to \$1,077m in 1H16. On a pre-quota share basis, gross expenses reduced by nearly 1%.

The reported expense ratio improved to 25.6% (1H16: 26.2%), while on an ex-leaves basis the administration ratio was 13.3% (1H16: 13.8%).

IAG's commission ratio of 9.8% was lower than 1H16 (10.3%), reflecting the changed business mix arising from modest growth in direct personal lines, alongside lower intermediated commercial volumes.

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
EXPENSES			
Gross commission expense	531	508	526
Gross underwriting expense	919	903	912
Total gross expenses	1,450	1,411	1,438
Reinsurance commission revenue	(373)	(372)	(353)
Total net expenses	1,077	1,039	1,085

Lower expenses, ex-quota share effects

3. GROUP RESULTS

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H17 was \$37m, compared to \$174m in 1H16. This outcome includes:

- An unrealised capital loss of nearly \$90m, compared with an equivalent gain of over \$30m in 1H16;
- A positive contribution of \$5m from the narrowing of credit spreads (1H16: negative impact of \$15m); and
- A minor adverse foreign exchange impact (1H16: \$16m 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.

After allowance for the factors outlined above, the average yield achieved in 1H17 was slightly lower than that of 1H16.

The portfolio is aligned with the average weighted duration of the Group's claims liability which is two to three years. In 1H16, prior to the portfolio transfer of asbestos-related risks to Berkshire Hathaway, average duration was three to four years.

NET CORPORATE EXPENSE

A pre-tax net corporate expense of \$4m was recognised in 1H17 (1H16: \$14m). The bulk of this is the small loss on divestment of the Swann Insurance car dealership business.

The post-tax impact of corporate expenses on reported earnings was approximately \$4m, which has been added back for the calculation of cash earnings when determining the dividend.

PROFIT FROM FEE BASED BUSINESS

The \$1m loss from fee based business (1H16: \$10m profit) largely reflected lower returns from the NSW and Victorian workers' compensation schemes, for which Business Division acts as an agent.

SHARE OF ASSOCIATES

The Group's Asian interests represent the vast majority of the share of earnings from associates, and in 1H17 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 \$9m (1H16: \$7m), after allocation of \$7m of regional support and development costs. The Group's overall share of associates was a profit of \$9m (1H16: \$8m).

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of \$105m, a substantial increase on the profit of \$38m in 1H16. This was driven by a stronger equity market performance, with the broader Australian index (S&P ASX200 Accumulation) delivering a return of 10.6% (1H16: negative 0.5%) and the MSCI World Total Return Index (AUD Hedged) a similar increase (1H16: negative 1.3%).

At 31 December 2016 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 48% (FY16: 48%).

Slightly lower average yield on technical reserves

Small loss on sale of Swann business

Share of associates largely derived from Asian interests

Higher shareholders' funds income reflects stronger equity market performance

3. GROUP RESULTS

TAX EXPENSE

IAG reported a tax expense of \$109m in 1H17 (1H16: \$67m), representing an effective tax rate (pre-amortisation) of 17.3% (1H16: 11.1%).

The main reason for this sub-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 their revenue authorities. The effective tax rate is expected to return to a more normal level, in the high 20s, in future periods.

The tax rate in 1H16 was also abnormally low, owing to the combination of the favourable resolution of a tax audit associated with IAG's former UK operations and further reinsurance recoveries relating to the September 2010 Canterbury earthquake event, as recognised by IAG's captive vehicle.

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.

NON-CONTROLLING INTERESTS

The \$45m non-controlling interests in IAG's profit compares to \$40m in 1H16. The majority of the non-controlling interests is attributable to RACV's 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT form part of the Consumer Division. The improved IMA result includes a favourable perils experience compared to 1H16.

EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H17 was 18.61 cents per share (cps), a decrease of 3.3% compared to 1H16. 1H17 basic EPS was calculated on lower weighted average equity on issue of approximately 2,397m shares (excluding treasury shares). This follows completion of an off-market buyback in October 2016. On a diluted basis, EPS was 17.92cps (1H16: 18.64cps).

Cash EPS was 19.98cps, a decrease of 4.0% compared to 1H16.

	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 half year	2,367.5
Average weighted shares on issue	2,402.6
Less: Treasury shares held in trust	(5.2)
Average weighted shares on issue (excluding treasury shares)	2,397.4

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.

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

Higher non-controlling interests reflects improved IMA result

Cash EPS of 19.98 cents

3. GROUP RESULTS

	1H17
CASH EARNINGS	A\$m
Net profit after tax	446
Acquired intangible amortisation and impairment	29
Unusual items:	
- Corporate expenses	4
- Tax effect on corporate expenses	-
Cash earnings	479
Dividend payable	308
Cash payout ratio	64.3%

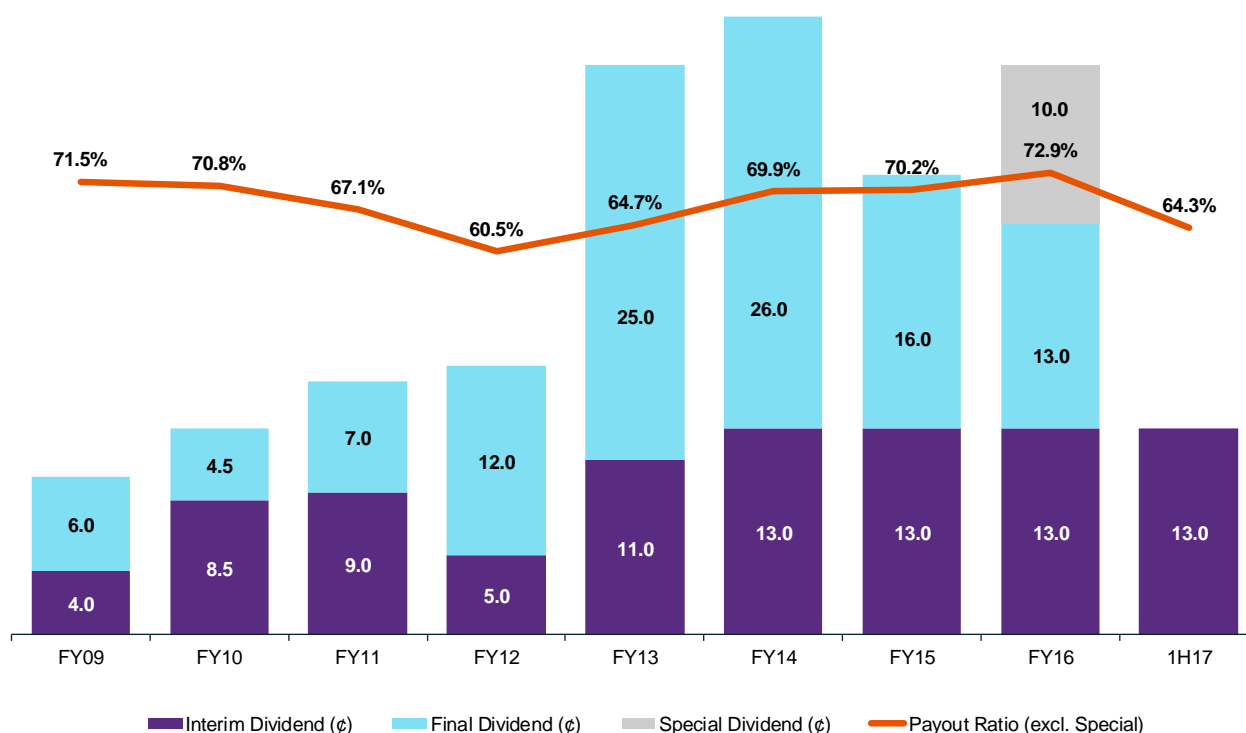
DIVIDEND

The Board has determined to pay a fully franked interim dividend of 13.0 cents per ordinary share (1H16: 13.0cps). The interim dividend is payable on 30 March 2017 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 1 March 2017.

The interim dividend equates to a payout ratio of 64.3% of cash earnings in 1H17. The Group's dividend policy is to pay out 60-80% of cash earnings on a full year basis.

Interim dividend unchanged, representing 64.3% of cash earnings

DIVIDEND HISTORY – FY09-1H17



As at 31 December 2016, and after allowance for payment of the interim dividend, IAG's franking balance was \$136m, giving it the capacity to fully frank a further \$318m of distributions.

3. GROUP RESULTS

The dividend reinvestment plan (DRP) will operate for the interim dividend for shareholders registered for the DRP as at 5pm on 2 March 2017. The issue price per share for the interim 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>

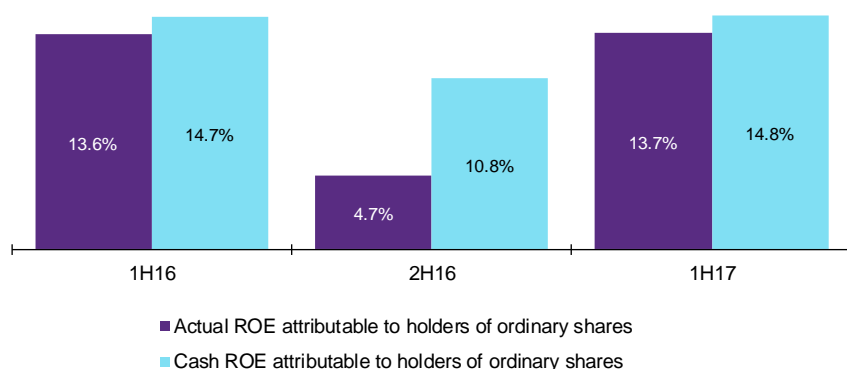
RETURN ON EQUITY

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.

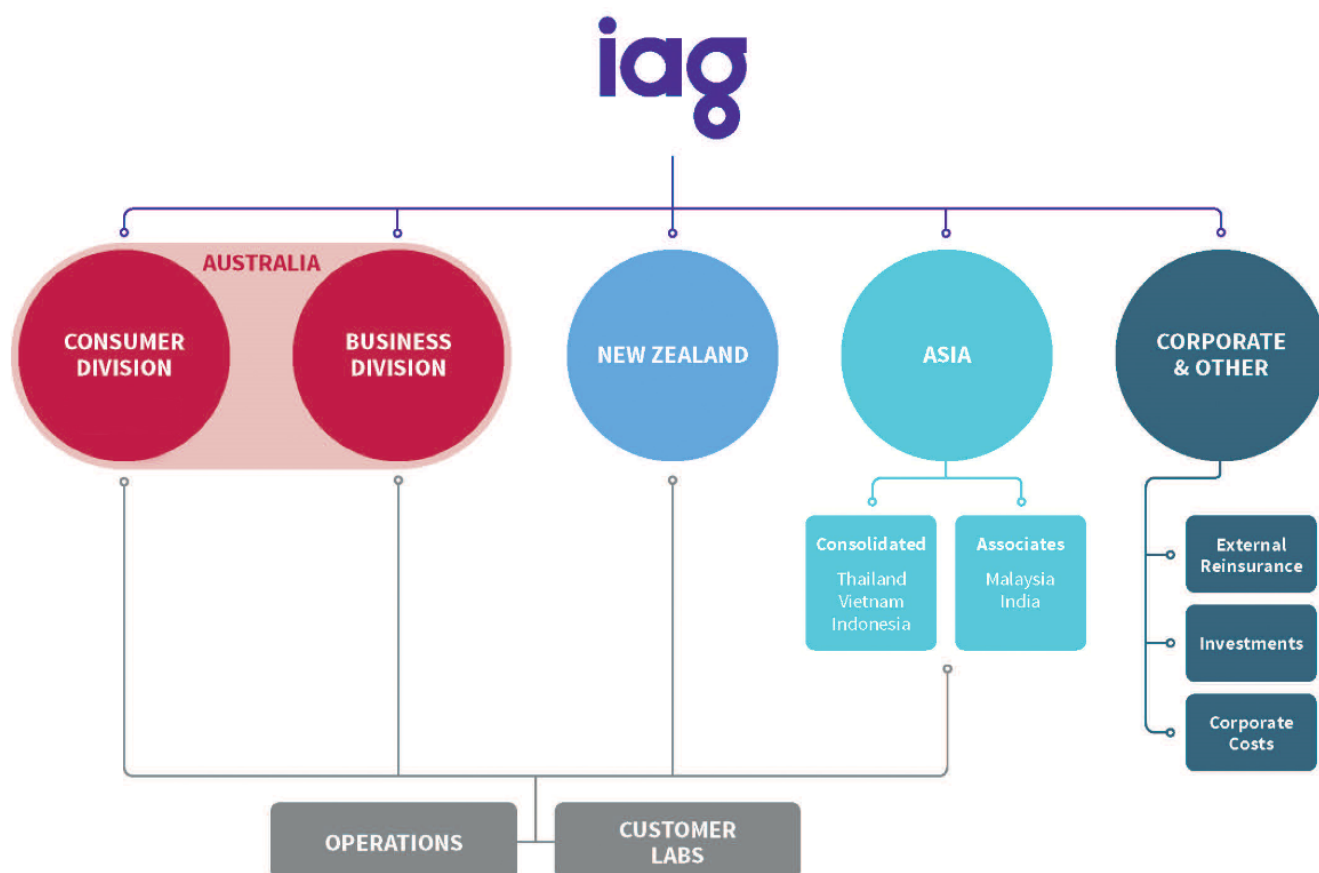
IAG's current long term cost of capital approaches 10%, equating to a cash ROE target of approximately 15%. In 1H17, IAG reported a cash ROE of 14.8% (1H16: 14.7%).

Cash ROE of 14.8%

RETURN ON EQUITY (ANNUALISED)



4. 1H17 SEGMENTAL OVERVIEW



1H17 DIVISIONAL FINANCIAL PERFORMANCE

	Australia					
	Consumer Division	Business Division	New Zealand	Asia	Corporate & Other	Total
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	3,060	1,423	1,128	182	9	5,802
Gross earned premium	2,980	1,550	1,143	186	9	5,868
Reinsurance expense	(837)	(417)	(311)	(53)	(6)	(1,624)
Net earned premium	2,143	1,133	832	133	3	4,244
Net claims expense	(1,269)	(667)	(598)	(89)	(2)	(2,625)
Commission expense	(114)	(173)	(95)	(33)	(1)	(416)
Underwriting expense	(313)	(217)	(116)	(23)	-	(669)
Underwriting profit/(loss)	447	76	23	(12)	-	534
Investment income on technical reserves	14	5	13	5	-	37
Insurance profit/(loss)	461	81	36	(7)	-	571
Profit/(loss) from fee based business	-	2	-	-	(3)	(1)
Share of profit from associates	-	-	-	9	-	9
Total divisional results	461	83	36	2	(3)	579

Insurance Ratios

Loss ratio	59.2%	58.9%	71.9%	66.9%		61.9%
Expense ratio	19.9%	34.5%	25.3%	42.1%		25.6%
Commission ratio	5.3%	15.3%	11.4%	24.8%		9.8%
Administration ratio	14.6%	19.2%	13.9%	17.3%		15.8%
Combined ratio	79.1%	93.4%	97.2%	109.0%		87.5%
Insurance margin	21.5%	7.1%	4.3%	(5.3%)		13.5%
Underlying insurance margin	14.1%	8.8%	15.3%			12.6%

5. CONSUMER DIVISION

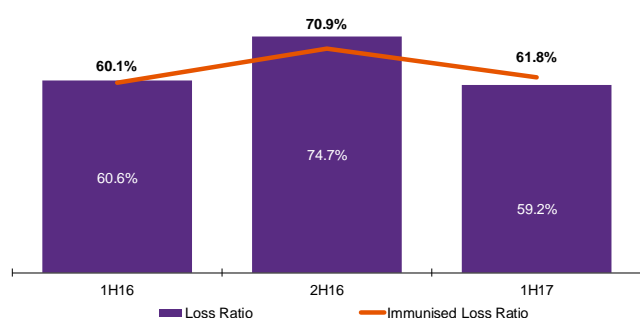
FINANCIAL PERFORMANCE

	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

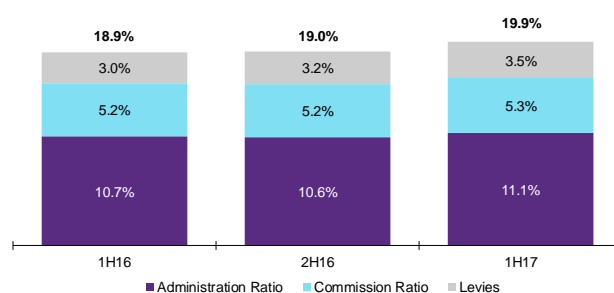
Insurance Ratios	1H16	2H16	1H17
Loss ratio	60.6%	74.7%	59.2%
Immunised loss ratio	60.1%	70.9%	61.8%
Expense ratio	18.9%	19.0%	19.9%
Commission ratio	5.2%	5.2%	5.3%
Administration ratio	13.7%	13.8%	14.6%
Combined ratio	79.5%	93.7%	79.1%
Immunised combined ratio	79.0%	89.9%	81.7%
Insurance margin	24.6%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

INSURANCE RATIOS

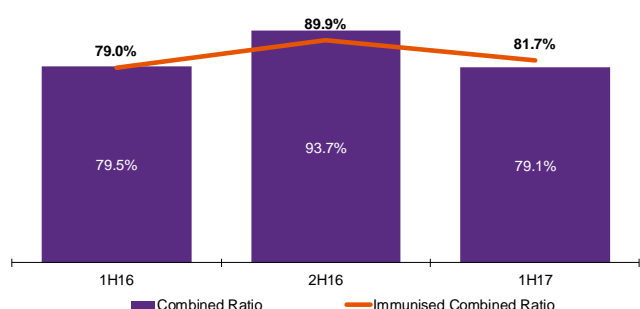
LOSS RATIO



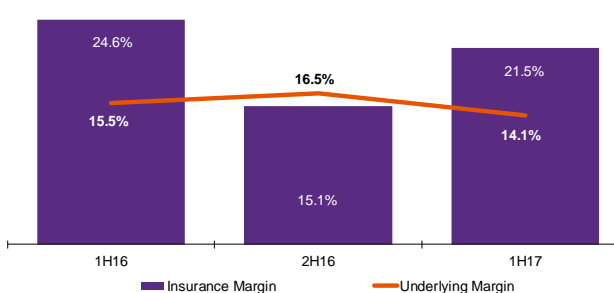
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

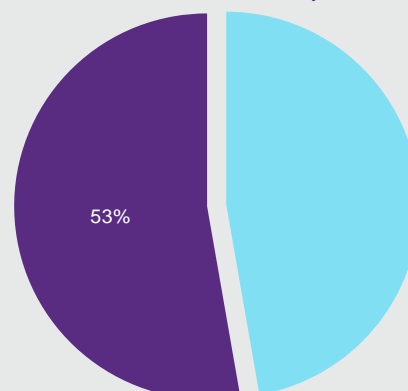


5. CONSUMER DIVISION

EXECUTIVE SUMMARY

- Consumer Division comprises Australian personal lines insurance products, including CTP
- It includes direct and intermediated (affinity and financial institution partnerships and broker and agent) channels
- Full suite of value propositions to accommodate changing customer behaviours and preferences
- Strong 1H17 GWP growth of 7.4%, driven by short tail rate increases to address claims inflation, increased ESL collection and entry into South Australian CTP
- Strong 1H17 profitability despite ongoing pressures in NSW CTP – overall underlying margin of 14.1%
- Strong growth from Satellite (formerly ‘challenger’), causing slight drag on margin
- Reported margin of 21.5% boosted by significant CTP-related reserve releases
- Delay of NSW CTP reform

Consumer Division - % Group GWP



PREMIUMS

Consumer Division remains a market leader in Australian personal lines. The division offers a full range of customer value propositions to accommodate changing customer behaviours.

The division's GWP increased by 7.4% to \$3,060m in 1H17 (1H16: \$2,848m), and included growth in both short tail home and motor lines, as well as long tail CTP.

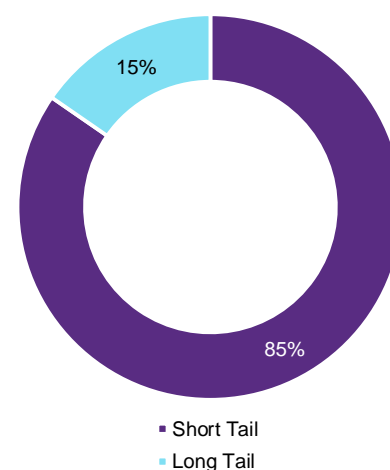
Short tail personal lines represented approximately 85% of divisional GWP, and grew by 6.6%. Slightly increased momentum was evident in 1H17, building on 2H16's advance of 5.5%. In 1H16, short tail GWP growth was 2.4%.

Short tail GWP growth in 1H17 was predominantly rate-driven, partly in response to higher than originally expected claims inflation, notably in motor. Higher levy collection and an increase in average sums insured were also features in home. Rate-related GWP growth was augmented by volume gain in motor, while home volumes were stable.

Consumer Division's collective brands generated a sound top line performance in a dynamic and competitive environment. Within Satellite, Coles Insurance and BHIA (via the intermediated channel in partnership with Steadfast) delivered growth of double digit proportions, albeit off considerably smaller bases than those of the major brands.

GWP increase of 7.4%, reflecting short tail rate growth and South Australia CTP entry

1H17 GWP - TAIL



GWP	1H16	2H16	1H17	GWP Growth 1H17 vs 1H16
Motor	1,283	1,357	1,354	5.5%
Home	1,054	1,069	1,139	8.1%
Niche & Other	92	91	96	4.3%
Total Short Tail	2,429	2,517	2,589	6.6%
Long Tail	419	436	471	12.4%
Total GWP	2,848	2,953	3,060	7.4%

5. CONSUMER DIVISION

GWP attributable to collection of ESL in NSW increased to approximately \$104m in 1H17 (1H16: \$80m), with a corresponding cost included in the underwriting expense line, after allowance for the 20% quota share effect. Lower ESL collection is anticipated in 2H17, ahead of its abolition with effect from 1 July 2017.

Motor GWP increased by 5.5%, compared to 1H16, consistent with the growth achieved in 2H16. The majority of this improvement was rate-derived, in the face of increased claim costs, and was supplemented by modest volume growth, notably in NSW and Victoria.

Home GWP rose by 8.1% compared to 1H16, outstripping the 5.8% growth recorded in 2H16 (over 2H15), and included increased ESL collection and the favourable effect of higher average sums insured. Volume was close to flat, with minor contraction in some states.

Due and paid renewal levels for both motor and home remained high, and were reasonably stable compared to 1H16. Slight improvements were registered in portfolios such as NSW and Victorian home, Coles home, and financial partner motor.

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

Niche and other short tail lines GWP, comprising boat, caravan, classic car, credit card, warranty and other specialty products, recorded growth of 4.3%, compared to 1H16. This was derived from a mixture of rate and volume.

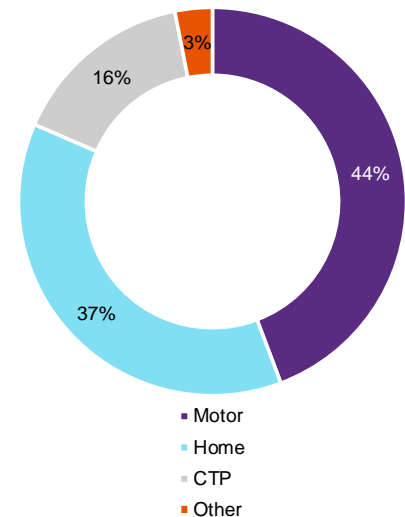
Long tail (CTP) GWP increased by 12.4%, compared to 1H16, embracing:

- 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 1H17 was approximately \$37m;
- An increase in GWP from NSW of over 6%, where cumulative rate increases to address claim inflation issues more than countered lower volume. Three 2% rate increases were implemented in the half, on each of 1 July, 1 September and 21 November 2016. IAG's share of NSW CTP registrations (on a 12-month rolling average basis) reduced to 33.4% (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 has lost further market share and implemented a 3% rate reduction from 1 October 2016. The decline in market share has begun to flatten out, moving from 66% (on a 12-month rolling average basis) at December 2015, to 55% by June 2016 and 52% by December 2016.

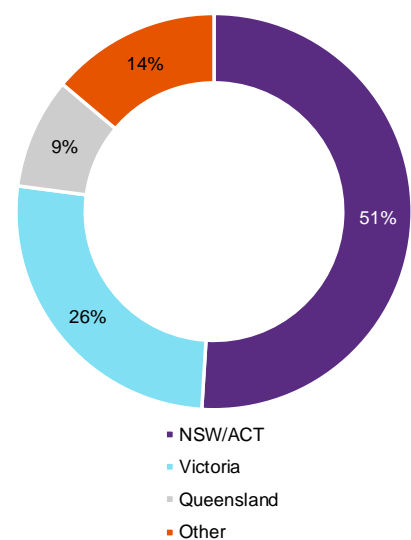
During 1H17, the main brands continued to advance their digital sales and service functionality via the online self-service centre and digital claims, as well as an extension of their social media proposition. Developments included:

- Growth in both the footprint and customer capability of social interactions, including proactive chat and instant messaging;
- Advancements 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;

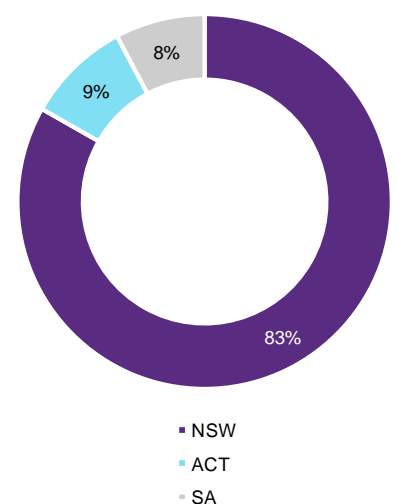
1H17 GWP - CLASS



1H17 SHORT TAIL GWP - STATE



1H17 LONG TAIL GWP - STATE



5. CONSUMER DIVISION

- 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 in 1H17, of in excess of 20%. NRMA Insurance conducted approximately 21% of new business sales and 23% of renewals online.

The main brands are maintaining their face-to-face differentiation at a competitive cost, with the first shopping centre-based kiosk opened towards the end of FY16, showcasing NRMA Insurance's online service portal while also offering choice of service by traditional methods.

During 1H17, the challenger business, housing SGIO, SGIC, Coles Insurance and BHIA (via the intermediated channel in partnership with Steadfast), was relaunched under the title of Satellite. This portion of the Consumer Division is directed at the segment of the market looking for more affordability, value and choice.

Satellite made the following enhancements to its customer offering and service during 1H17:

- An acceleration of its digital offering, including the introduction of a new Coles Insurance motor express quote online, delivering a market-leading quote process;
- Implementation of a new SGIO / SGIC creative platform and brand refresh, focusing on affordability, value and choice; and
- Phase one of a telematics pilot program to SGIO and SGIC customers within a targeted age bracket.

REINSURANCE EXPENSE

The division's reinsurance expense was \$837m in 1H17, compared to \$818m in 1H16. The 2.3% 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 catastrophe renewal.

CLAIMS

The division reported a slightly higher immunised loss ratio of 61.8% in 1H17 (1H16: 60.1%). This was driven by the combination of:

- Higher net natural peril claim costs;
- Lower prior period reserve releases;
- Maintained high frequency in NSW CTP; and
- Increased short tail claim costs, countered by premium rate increases.

The reported loss ratio of 59.2% was lower than that of 1H16 (60.6%), and contained a favourable risk free discount rate adjustment of \$56m, compared to an adverse adjustment of \$10m in 1H16.

Challenger business re-named Satellite

Lower underlying reinsurance expense, on favourable 2016 catastrophe renewal

Claim cost pressures, in both short and long tail classes

5. CONSUMER DIVISION

Reserve Releases

Reserve releases of \$135m were nearly 20% lower than those reported in 1H16 (\$167m), but continued to remain 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, notably claim size, finalisation rates and inflation. The bulk of the releases are in respect of 2014 and prior accident years.

1H17 reserve releases were 6.3% of NEP, compared to 8.3% in 1H16. Future reserve release levels are expected to moderate.

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
RESERVE RELEASES			
Reserve releases	167	87	135
Impact on insurance margin	8.3%	4.2%	6.3%

Natural Perils

Losses from natural perils (net of reinsurance) totalled \$160m, which was \$43m lower than the period's allowance. This outcome was assisted by some protection from the Group's aggregate cover in 1H17, specifically in relation to the extensive rain storm event in December 2016.

The most significant peril-related claim cost for the division during 1H17 was that from the Adelaide hail storm event in November 2016, which amounted to nearly \$46m.

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
NATURAL PERILS			
Natural peril claim costs	(131)	(259)	(160)
Natural peril allowance	176	176	203
Impact on insurance profit	45	(83)	43
Impact on insurance margin	2.2%	(4.0%)	2.0%

Claims Experience

The division's underlying claims performance in 1H17 saw an adverse claim cost trend in short tail classes and a continuation of poor claims experience in long tail CTP.

Short tail claims experience in 1H17 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 lower average home claim costs, particularly in relation to high value fire and water claims.

Further improvement in the customer and quality outcomes from the motor repair relationship model is continuing to help cushion 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 ~60% for motor and ~40% for home.

The high level of NSW CTP claims persisted over the course of 1H17, despite relatively flat frequency. Increased lodgement levels were experienced from 'farming or referral networks' involving low severity injuries with no hospitalisation or police in attendance.

Significant reserve releases from CTP

Favourable natural peril experience, with similar margin effect to 1H16

Adverse claim cost trend in short tail classes

5. CONSUMER DIVISION

EXPENSES

The division's reported expenses totalled \$427m in 1H17, compared to \$381m in 1H16.

A significant portion of the increase in reported expenditure relates to higher ESL in NSW. A reduced ESL impact is anticipated in 2H17, ahead of its abolition with effect from 1 July 2017.

Other contributory elements to the movement in expenditure were:

- Further benefits from past reinvestment in the business and the implementation of the revised operating model in Australia;
- Increased investment in the Satellite business, which experienced strong growth in the half; and
- A small net negative from optimisation initiatives, as modest initial benefits were more than offset by related implementation costs.

The reported expense ratio deteriorated to 19.9% (1H16: 18.9%), and on an ex-leaves basis the administration ratio increased to 11.1% (1H16: 10.7%).

INSURANCE PROFIT

The division reported an insurance profit of \$461m, compared to \$495m in 1H16. This equates to a lower reported insurance margin of 21.5% compared to 1H16 (24.6%), and included the net effect of:

- Higher expenses, including those related to ESL;
- Lower reserve releases;
- Higher net natural peril claim costs;
- A favourable credit spread movement of \$12m; and
- A lower underlying investment return.

Pressure on profitability from higher claim costs in both short and long tail classes has been moderated by solid premium rate increases in the period.

The division's underlying performance was strong, with an underlying margin of 14.1% (1H16: 15.5%).

A slight drag on reported and underlying margin was the stronger growth from the lower margin Satellite offering, comprising Coles Insurance, SGIO, SGIC and BHIA (via the intermediated channel in partnership with Steadfast).

Higher expenses partly explained by increased ESL element

Strong underlying margin of 14.1% in 1H17

	1H16	2H16	1H17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	167	87	135
Natural perils	(131)	(259)	(160)
Natural peril allowance	176	176	203
Credit spreads	(9)	(12)	3
Reserve releases	8.3%	4.2%	6.3%
Natural perils	(6.5%)	(12.6%)	(7.5%)
Natural peril allowance	8.7%	8.6%	9.5%
Credit spreads	(0.4%)	(0.6%)	0.1%

5. CONSUMER DIVISION

MARKET REGULATION AND REFORM

Several legislative reviews and inquiries are underway, or have recently concluded, 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 in Australia's \$28bn home, strata and car insurance industries; transparency in Australia's home, strata and car insurance industries; and insurance comparison services. Submissions were due on 10 February 2017, with a report due by 22 June 2017.
- 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. Submissions are due by 7 March 2017, with a report due by 22 March 2018.
- The Productivity Commission's Inquiry into National Disaster Funding Arrangements examined the scope of spending on natural disaster mitigation, resilience and recovery initiatives, and the risk management measures available or taken by asset owners. A Final Report to the Australian Government was released on 1 May 2015. The Australian Government's response, released in late December 2016, did not support any additional funding for upfront mitigation;
- 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 are due on 15 March 2017;
- The Australian Government's response to the Competition Policy Review was released in November 2015. The Government published a further Discussion Paper and referred the issue of an 'effects test' for further consultation. The Government announced in March 2016 it 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 has yet to be debated;
- The Australian Government is conducting a Review of the Australian Consumer Law, including the Unfair Contract Terms protections. An Interim Report was released on 17 October 2016 for comment by 9 December 2016, with a Final Report due by March 2017;
- The Australian Government established the Northern Australian Insurance Affordability Taskforce on 8 May 2015 to explore options for reducing home, contents and strata insurance premiums in Northern Australia. The Taskforce released an Interim Report in August 2015 which 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 2017;
- The Productivity Commission is currently conducting an Inquiry into Data Availability & Use. A Draft Report was released in November 2016 and, following submissions, a Final Report is due in March 2017;

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

5. CONSUMER DIVISION

- 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 protection to at-fault road users. The reform proposals deal with a number of the issues identified in the July 2014 NSW Standing Committee on Law and Justice 12th review of the Motor Accidents Authority, including: encouraging greater competition in the NSW CTP scheme; increased reporting on scheme performance; legal costs; and reviewing insurer profits in the NSW CTP scheme. The Government aims to have legislation passed in 2017; and
- In December 2015 the NSW Government announced it would abolish the Emergency Services Levy on insurance policies and replace it with an Emergency Services Property Levy, paid alongside council rates, with effect from 1 July 2017. The Government has appointed an Emergency Services Levy Insurance Monitor to ensure that insurers pass on the cost savings to consumers and businesses.

MARKET ENVIRONMENT AND OUTLOOK

Market conditions for the personal insurance market are expected to be relatively stable over the balance of FY17, with 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.

Modest ongoing growth in short tail GWP is anticipated, in response to increasing claim costs across the industry. A slowing in the rate of growth of the more established challenger brands may limit market share losses by the major insurers, who are expected to benefit from optimisation and rationalisation initiatives.

Opportunities for top line growth will fall to those that best respond with innovative products, embrace the use of increasing sophistication with data and risk analytics, create greater personalisation of products and services to connect customers with their insured assets and provide greater online engagement.

Consumer Division is well-equipped to compete in this environment, having increased the granularity of its customer segmentation model, while providing better value alignment through its brand architecture and full range of customer value propositions, including the Satellite offering.

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

The performance of the NSW CTP portfolio is expected to remain under pressure in FY17, with cumulative rate increases only partially addressing the elevated claim frequency of recent periods. Planned reform measures will potentially ease such pressure from calendar 2018 onwards, although the timing of scheme reform is uncertain.

Regulations were introduced from 1 November 2016 to cap legal fees for low value CTP claims, and from 1 May 2017 CTP insurers will participate in the Risk Equalisation Mechanism (REM) introduced by the NSW regulator as part of its premium system changes. These changes are not expected to have a significant effect on current CTP profitability.

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

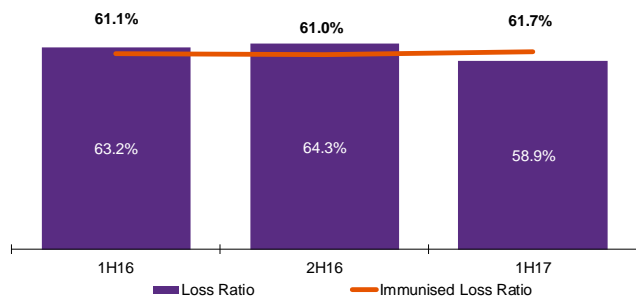
6. BUSINESS DIVISION

FINANCIAL PERFORMANCE

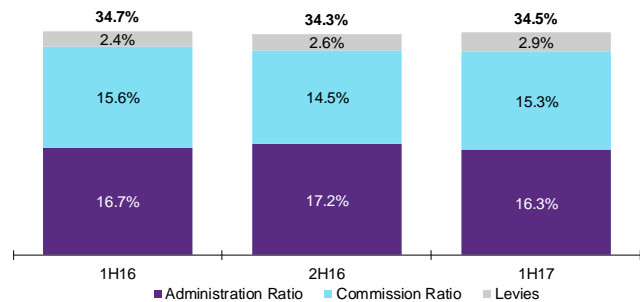
	1H16	2H16	1H17
	A\$m	A\$m	A\$m
Gross written premium	1,419	1,560	1,423
Gross earned premium	1,597	1,525	1,550
Reinsurance expense	(413)	(406)	(417)
Net earned premium	1,184	1,119	1,133
Net claims expense	(748)	(719)	(667)
Commission expense	(185)	(162)	(173)
Underwriting expense	(226)	(222)	(217)
Underwriting 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%

INSURANCE RATIOS

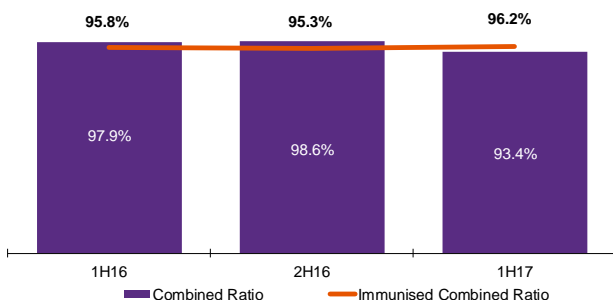
LOSS RATIO



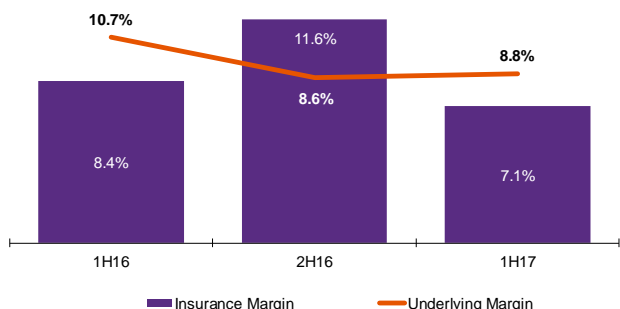
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

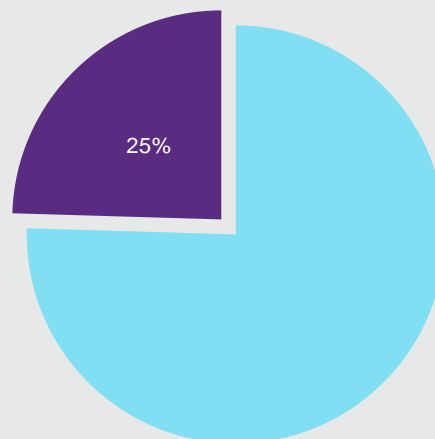


6. BUSINESS DIVISION

EXECUTIVE SUMMARY

- Business Division comprises all commercial insurance products sold in Australia under the CGU, WFI, NRMA, RACV, SGIO and SGIC brands, as well as niche products sold through brands such as Swann Insurance
- Over 4% like-for-like increase in 1H17 GWP, after allowing for divestment of Swann Insurance's car dealership business
- Underwriting discipline maintained, with increasing signs of rate improvement
- Underlying margin of 8.8% consistent with 2H16 (8.6%) but lower than 1H16 (10.7%) from earn-through of reduced prior period GWP and lower investment returns
- Lower reported margin of 7.1% (1H16: 8.4%) includes higher net natural peril claim cost
- Similar underlying performance expected in 2H17

Business Division - % Group GWP



PREMIUMS

The Business Division reported flat GWP of \$1,423m, compared to 1H16 (\$1,419m). After allowance for the divestment of the Swann Insurance car dealership business, like-for-like GWP was over 4% higher. This outcome comprised:

- A relatively steady policy count, with higher than expected retention levels achieved in key portfolios;
- Lower new business opportunities and volumes; and
- Further increases in rates in most classes.

The Business Division has continued to maintain its strict underwriting discipline through targeted portfolio reviews and remedial action, including moderate rate increases that began at the end of 1H16. This stance has impacted levels of new business where opportunities have been limited, particularly in business packages.

GWP in the workers' compensation portfolio has continued to be adversely affected by the tougher economic conditions and lower wage levels in the Western Australian economy. GWP was also impacted by targeted portfolio remediation which saw an exit from poorly performing accounts. Workers' compensation GWP declined by approximately \$26m compared to 1H16, or nearly 11%.

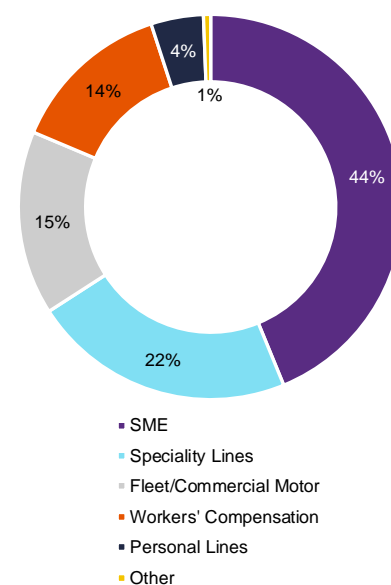
Strata has continued to operate in a highly competitive market, which led to a decline in GWP of approximately \$15m compared to 1H16, or nearly 25%. A disciplined approach to pricing has, however, seen some improvement in strata's profitability in 1H17.

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 \$61m, compared to 1H16. The full year effect of this portfolio's absence is expected to be about \$130m, compared to FY16, and impacts the 'personal lines' and 'other' business classes.

The Business Division continues to pursue an underwriting agency strategy, with this area delivering GWP growth of ~4% despite significantly weaker strata volumes. Excluding strata, growth was 19% and included the first contribution from Pacific Indemnity, which writes specialised professional risk products, and the joint venture with Bond Credit Company that was created in 1H17 and whose product offering includes debtor payment default protection. Underwriting agency-derived GWP in 1H17 amounted to \$185m.

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

1H17 GWP - CLASS



6. BUSINESS DIVISION

Various portfolios, most notably rural products and professional risks, experienced some premium growth. The direct market also continued to exhibit healthy growth, and represented 24% of the Business Division's GWP in 1H17.

Long tail classes represented around 25% of the Business Division's GWP in 1H17, which was consistent with the prior comparable half.

GWP attributable to ESL in NSW amounted to approximately \$45m in 1H17 (1H16: \$35m), with a corresponding cost included in the underwriting expense line, after allowance for the 20% quota share effect. Lower ESL collection is anticipated in 2H17, ahead of its abolition with effect from 1 July 2017.

The Business Division continues to enhance its product offering, strengthen its partnerships and improve the quality of its customer service. Initiatives during 1H17 included:

- 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;
- The launch of an enhanced direct proposition for the micro and SME segments via the CGU brand, designed to ease customers' ability to do business;
- Further development of new offerings for the farming sector, including a multi-peril crop initiative and products aimed at the corporate farming segment; and
- The WFI brand entering a new three-year strategic partnership with the National Farmers' Federation (NFF) as the official insurance category sponsor of its new online platform. WFI will help the NFF deliver better engagement and leadership for Australian farmers, agribusiness and consumers, while enhancing WFI brand awareness.

The Business Division's CGU brand became a foundation sponsor of the Collingwood Women's team in the inaugural AFL Women's League. The three-year sponsorship deal creates new opportunities for women and girls to play Aussie rules at an elite level and supports the drive to achieve gender equality in AFL.

The Business Division's strong levels of service and partnership capabilities continue to receive 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; and
- 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.

REINSURANCE EXPENSE

The Business Division's reinsurance expense was \$417m in 1H17, compared to \$413m in 1H16.

Excluding the reinsurance expense directly stemming from the Berkshire Hathaway quota share arrangement, the Business Division's 1H17 reinsurance expense was marginally higher than 1H16, reflecting the amalgam of:

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

Further initiatives to enhance product offering and strengthen partnerships

Continued industry recognition for CGU

Similar reinsurance expense to 1H16

6. BUSINESS DIVISION

CLAIMS

The Business Division's 1H17 immunised loss ratio of 61.7% was slightly higher than the preceding two halves (1H16: 61.1%). This outcome incorporated an adverse net natural peril claim experience of similar magnitude to 1H16, and slightly lower prior period reserve releases.

The underlying claims performance included an elevated level of large losses in the property and packaged product portfolios, consistent with 1H16. 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, together with favourable frequency.

The overall reported loss ratio was 58.9%, compared to 63.2% in 1H16. It contained a favourable risk free discount rate adjustment of \$32m, compared to an unfavourable effect of \$24m in 1H16.

Reserve Releases

Prior period reserve releases of \$24m were slightly lower than those reported in 1H16 (\$29m) and, at 2.1% of NEP, remained above IAG's long term expectation of 1%. These releases reflect continued favourable claims performance in a low inflation environment across the long tail portfolios of workers' compensation and liability.

	1H16 A\$m	2H16 A\$m	1H17 A\$m
RESERVE RELEASES			
Reserve releases	29	57	24
Impact on insurance margin	2.4%	5.1%	2.1%

Natural Perils

Net natural peril claim costs amounted to \$137m in 1H17, \$33m higher than the related allowance. They were similar to those incurred in 1H16, with each period benefiting from a degree of protection from the Group's calendar-based aggregate reinsurance cover.

The most significant peril event for the Business Division during 1H17 was the Adelaide hail storm event in November 2016, which contributed a net claim cost of nearly \$40m. Other notable events were:

- The South Australia rain, wind and storms in September 2016; and
- The extensive rain storms in Australia in December 2016, where costs were capped by intervention of the Group's aggregate reinsurance cover.

	1H16 A\$m	2H16 A\$m	1H17 A\$m
NATURAL PERILS			
Natural peril claim costs	(133)	(97)	(137)
Natural peril allowance	95	95	104
Impact on insurance profit	(38)	(2)	(33)
Impact on insurance margin	(3.2%)	(0.2%)	(2.9%)

EXPENSES

The Business Division's reported expenses totalled \$390m in 1H17, compared to \$411m in 1H16. The 5% reduction in reported expenditure reflects reduced controllable costs, including a full run rate of synergies from the integration of the former Wesfarmers business.

Slightly higher immunised loss ratio

Lower reserve releases, but above long term expectation

Perils \$33m above allowance, despite some relief from aggregate cover

Lower expenses, as full Wesfarmers synergy run rate realised

6. BUSINESS DIVISION

The Business Division's reported expense ratio, of 34.5%, was slightly lower than 1H16 (34.7%) and, on an ex-levies basis, its administration ratio reduced to 16.3% (1H16: 16.7%).

The Business Division's commission ratio reduced to 15.3% (1H16: 15.6%), largely reflecting changes in business mix.

INSURANCE PROFIT

The Business Division reported a lower insurance profit of \$81m, compared to 1H16 (\$100m). This equates to a reported insurance margin of 7.1% (1H16: 8.4%) which, compared to 1H16, includes the net effect of:

- A similar net natural peril claim cost;
- Slightly lower prior period reserve releases;
- A favourable credit spread movement of \$8m; and
- Lower investment returns.

The Business Division produced a 1H17 underlying margin of 8.8%. This was lower than the 10.7% recorded in 1H16, but similar to the 8.6% reported in 2H16.

The weaker underlying performance compared to 1H16 reflected the earn-through of lower GWP in prior periods and lower investment returns.

	1H16	2H16	1H17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	29	57	24
Natural perils	(133)	(97)	(137)
Natural peril allowance	95	95	104
Credit spreads	(6)	(10)	2
Reserve releases	2.4%	5.1%	2.1%
Natural perils	(11.2%)	(8.7%)	(12.1%)
Natural peril allowance	8.0%	8.5%	9.2%
Credit spreads	(0.5%)	(0.9%)	0.2%

FEE BASED INCOME

In 1H17, net income from fee based operations was \$2m, compared to \$11m in 1H16.

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

The 1H17 result contained \$6m of prior period fee income for the Victorian scheme, which was slightly higher than 1H16. The decrease in net income was driven by the combination of:

- The loss of the largest employer in the Victorian scheme following an unsuccessful tender submission;
- An unfavourable recalibration of the annual service fee payment under the new five-year Victorian contract that commenced on 1 July 2016; and
- A lower return from the NSW business reflecting changes in the remuneration services fees and lower performance / incentive fees.

Underlying margin of 8.8%, slightly higher than 2H16

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

6. BUSINESS DIVISION

A secondary source of fee income is Business Division's interest in authorised representative brokers. The integration of Westcourt General Insurance Brokers with National Advisor Services is proceeding according to plan as the division looks to capitalise on the growing number of customers using authorised representatives.

MARKET REGULATION AND REFORM

There are several Australian legislative reviews and inquiries underway, or have recently concluded, with potential implications for the Business Division, as outlined on pages 26 and 27 of the 1H17 Investor Report.

MARKET ENVIRONMENT AND OUTLOOK

The Australian commercial insurance industry continues to experience challenging market dynamics. Whilst pressure on rates has eased, broader market forces are expected to restrict the scope for their upwards movement, although conditions increasingly indicate the low-point of the cycle has passed.

The intermediated market, where the bulk of business is written, is expected to remain stable whereas the direct market is expected to show moderate growth in the short term.

Excluding the effect of the divestment of the Swann Insurance car dealership business, GWP growth is expected to be relatively flat for the balance of FY17.

New market entrants, particularly in strata, are expected to continue to drive high levels of competition which are anticipated to constrain new business growth and generate excess capacity. In this environment, Business Division is focused on maintaining its underwriting discipline and retention record.

The market is displaying a continued focus on reducing cost structures to shore up margins and maintain profitability. Competitor simplification, optimisation and offshoring programs are being implemented across the industry to reduce expense bases and fund improved customer and broker propositions.

In this challenging environment, Business Division is placing greater emphasis on the delivery of a more personalised and omni-channel customer experience, while leveraging Customer Labs' expertise and focusing on key customer segments and targeted propositions.

CGU and Vero have agreed to create Australia's leading marine insurance specialist, Marine Protect, via the combination of their respective marine portfolios. This will take effect from April 2017 and will be underwritten by the NTI joint venture, the specialist heavy motor and logistics insurer.

The Business Division's profitability is expected to be maintained over the balance of FY17, as it pursues rational pricing of its core business, active claims management and realises further operational efficiency improvements.

Conditions indicate the low-point of the cycle has passed

7. NEW ZEALAND

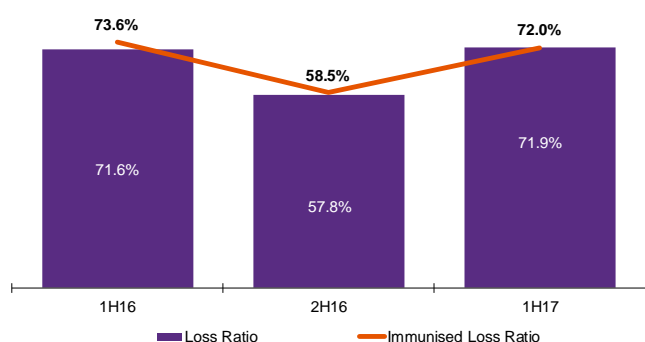
FINANCIAL PERFORMANCE

	1H16	2H16	1H17
	A\$m	A\$m	A\$m
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

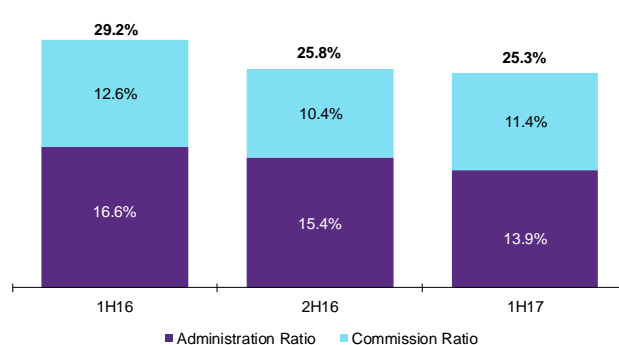
	1H16	2H16	1H17
Insurance Ratios			
Loss ratio	71.6%	57.8%	71.9%
Immunised loss ratio	73.6%	58.5%	72.0%
Expense ratio	29.2%	25.8%	25.3%
Commission ratio	12.6%	10.4%	11.4%
Administration ratio	16.6%	15.4%	13.9%
Combined ratio	100.8%	83.6%	97.2%
Immunised combined ratio	102.8%	84.3%	97.3%
Insurance margin	1.4%	15.2%	4.3%
Underlying insurance margin	18.4%	15.5%	15.3%

INSURANCE RATIOS

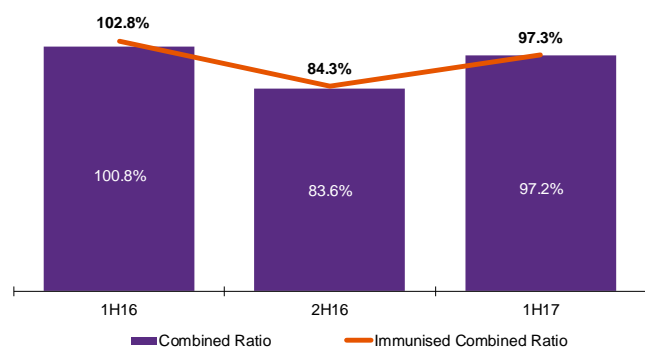
LOSS RATIO



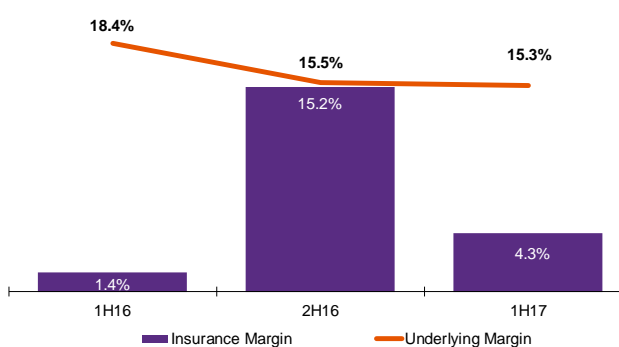
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

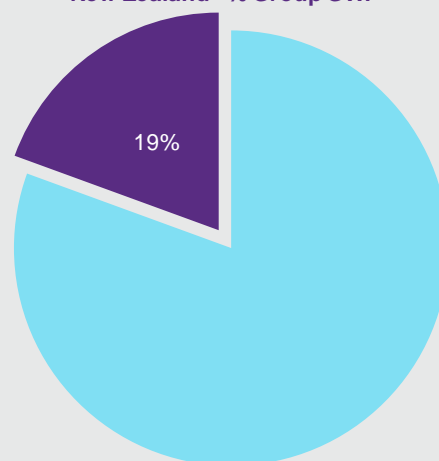


7. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- GWP grew by 5.4% (1.1% in local currency), as strong personal lines growth was largely offset by a soft commercial market
- Strong underlying operating performance maintained, despite adverse impact of higher claim costs
- Reported margin of 4.3% includes peril impact of \$117m from Kaikoura earthquake in November 2016
- Canterbury rebuild nearing completion with over 96% of claims settled by number
- Sound performance expected over balance of FY17
- Positive signs of rate movement emerging in commercial, particularly in the Wellington region

New Zealand - % Group GWP



PREMIUMS

New Zealand's reported 1H17 GWP rose by 5.4% to \$1,128m, compared to 1H16 (\$1,070m). A large portion of the increase was derived from a positive foreign exchange translation effect, with local currency GWP increasing by a more modest 1.1%, to NZ\$1,186m. This outcome was the result of:

- Sound GWP growth in the Consumer Division, which was driven by the private motor vehicle portfolio from a combination of higher volumes and rates; and
- A largely offsetting contraction in GWP from the Business Division, where softer premium rates and some volume loss was experienced, and where market conditions still remain competitive.

Consumer Division represented 59% of New Zealand's GWP in 1H17 (1H16: 57%) and achieved GWP growth of over 4% in local currency terms compared to the same period last year. The AMI private motor portfolio led this growth, registering both volume and rate increases. The Consumer Division experienced higher retention rates across all key personal lines products, including those with banking partners, as the business continues to deliver insurance propositions that meet customers' needs.

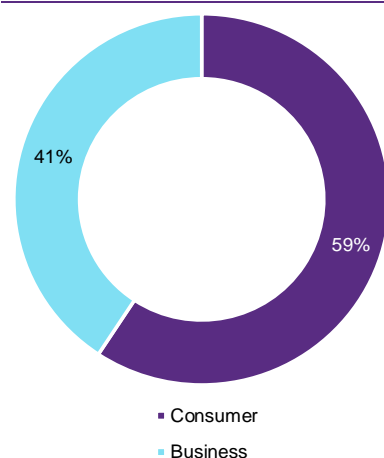
A range of digital solutions is allowing customers to manage their insurance online while providing greater choice and flexibility around their interaction with IAG brands. Consumer Division is committed to providing positive customer experiences and addressing customer needs via the provision of affordable insurance solutions. Its success in achieving these goals has been reflected in the progressive improvement in the division's net promoter score to a high level.

The Consumer Division includes the non-broker SME market, which is generating sound growth and represents annual GWP of approximately \$70m. The needs of this segment are being addressed through the establishment of a Growth Hub team at the end of FY16, which is focusing on the delivery of New Zealand's direct and bank SME strategy.

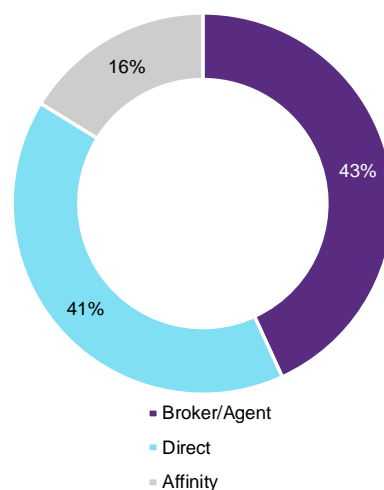
Business Division represented 41% of New Zealand's GWP in 1H17 (1H16: 43%), with reported GWP over 3% lower than the same period last year in local currency terms. Highly competitive market conditions continued to place pressure on commercial product lines, where IAG experienced item loss and a small reduction in average rate as it maintained strong underwriting disciplines.

Modest increase in local currency GWP - Consumer growth, weaker Business

1H17 GWP - DIVISION



1H17 GWP - CHANNEL



7. NEW ZEALAND

Commercial product line rates did show some modest improvement towards the end of 1H17, providing early signs that rates are beginning to strengthen. This process was given added impetus post the Kaikoura earthquake in November 2016, particularly in the Wellington region.

New Zealand continues to adhere to strong underwriting and pricing disciplines, ensuring appropriate pricing for risk remains a key priority.

Retention rates across all key product lines have improved against the experience in 1H16, as the New Zealand business continues to build successful partnerships by offering a range of comprehensive personal and business insurance products that support customers' needs in dynamic market conditions.

IAG's brands continue to achieve local industry recognition. At the 2016 ANZIIF Insurance Industry Awards in November, NZI's Safe Driving Rewards Programme was named Innovation of the Year. This is a world first for the insurance industry, using data derived from telematics to assess insurance risk for heavy motor vehicles and reward customers for better performance.

NZI was named 'Insurer of the Year' in the 2016 Katnar TNS Industry Survey, voted on by brokers across New Zealand. NZI was recognised for supporting the community, providing comprehensive solutions and superior service, and building strong partnerships.

REINSURANCE EXPENSE

New Zealand's reinsurance expense was \$311m in 1H17, compared to \$340m in 1H16. This comprises two elements:

- Berkshire Hathaway's portion of gross earned premium under the 20% quota share agreement, which was broadly similar to 1H16; and
- A lower non-quota share expense, driven by expense savings from the calendar 2016 catastrophe renewal.

CLAIMS

New Zealand produced a slightly lower immunised loss ratio of 72.0%, compared to 1H16 (73.6%). This contained:

- Substantially higher net natural peril claim costs of \$123m (1H16: \$14m), which were \$91m above allowance;
- No prior period reserve releases (1H16: \$143m strengthening); and
- A higher working claims experience.

The reported loss ratio of 71.9% (1H16: 71.6%) included a negligible foreign exchange impact from reinsurance recoveries tied to the FY11 earthquakes, as held by the offshore captive in Singapore. This compared to the \$14m favourable effect in 1H16.

Natural perils experience in 1H17 was dominated by the Kaikoura earthquake in November 2016, which contributed a net claim cost after reinsurance of \$117m. Any subsequent adverse development from this event is covered by the Group's calendar 2016 catastrophe reinsurance.

The Kaikoura earthquake registered a magnitude of 7.8 and was triggered by the rupturing of the Kekerengu Fault, located in North Canterbury, on 14 November 2016. While the epicentre was in a relatively sparsely populated region, there was damage in the upper South Island, with effects extending to the lower part of the North Island, including Wellington.

Lower non-quota share reinsurance expense from favourable renewal

Claims outcome includes major earthquake event and adverse working claims experience

Net cost of \$117m from Kaikoura earthquake

7. NEW ZEALAND

The insurance industry and the Earthquake Commission (EQC) have agreed a streamlined process for the handling of Kaikoura-related claims for homes and contents. All private insurers will assess and settle 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 will be reimbursed by the EQC for its liability following claims settlement. The agreement is expected to remove unnecessary duplication and claims handovers, while providing a much better customer experience.

Excluding the earthquake, New Zealand experienced a relatively low incidence of weather-related events, with a collective cost (ex-earthquake) below the allowance for the period.

	1H16	2H16	1H17
NATURAL PERILS	A\$m	A\$m	A\$m
Natural peril claim costs	(14)	(25)	(123)
Natural peril allowance	28	28	32
Impact on insurance profit	14	3	(91)
Impact on insurance margin	1.9%	0.4%	(11.0%)

There were no net prior period reserve releases in 1H17. This outcome was in contrast to 1H16, when a \$143m net strengthening was primarily driven by a NZ\$150m increase to risk margin in respect of the February 2011 earthquake event.

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

Working claims experience in 1H17 was higher than expected, predominantly in the home owners, home contents, private motor and commercial motor portfolios. Contributory factors included:

- Increased density of vehicles on the road, influenced by lower fuel prices and an increasing population following record net migration;
- Societal changes relating to ownership of consumables;
- A higher number of home owners' claims involving damage from methamphetamine contamination;
- Wetter weather conditions; and
- Higher compliance costs.

The New Zealand business is focused on the successful execution of action plans to address this trend, including the continued roll-out of increased excesses, targeted rate increases and internal claim process changes.

The large claims (greater than NZ\$100,000) experience in 1H17 was above both expectations and 1H16, driven by a higher incidence and cost of commercial and personal property fires.

CANTERBURY REBUILD

At 31 December 2016 over NZ\$6.1bn of claim settlements for the Canterbury earthquakes had been completed (FY16: NZ\$5.7bn). 96.5% (FY16: 93%) of all claims by number had been fully settled at that date.

Finalisation of commercial claims has advanced in line with expectations, with 97.4% fully settled by 31 December 2016 (FY16: 96%), while residential claim finalisation progressed strongly. Over 96% of residential claims had been settled by the end of 1H17 (FY16: 92%), with the balance either in construction or negotiation for cash settlement.

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

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

Over NZ\$6.1bn of FY11 earthquake claims now paid – over 96% of claims by number fully settled

7. NEW ZEALAND

During 1H17 IAG continued to receive new claims from the EQC as they tipped over the EQC cap of NZ\$100,000 plus GST. IAG's reserving position at the end of 1H17 allows for further claims exceeding the EQC's cap.

The New Zealand business and the wider industry continue to work closely with the EQC on the remaining Canterbury earthquake claims. On 17 August 2016 an agreement was reached between insurers and the EQC for IAG to lead a Joint Accelerated Review Team (JART) on behalf of the industry. The primary role of JART is to work with the EQC and its systems to identify remaining over-cap properties from the EQC database. Results to date have provided greater granularity of information.

Key characteristics of remaining claims include complexities associated with multi-unit dwellings, 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 \$211m in 1H17, compared to \$222m in 1H16. The lower expense outcome reflected:

- Disciplined cost management and a strict focus on expense savings;
- 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.

The reported commission expense of \$95m was slightly lower than 1H16 (\$96m), reflecting reduced intermediated business volumes, offset by foreign exchange translation effects.

The administration ratio improved to 13.9%, compared to 16.6% in 1H16.

INSURANCE PROFIT

The New Zealand business produced an insurance profit of \$36m in 1H17, compared to \$11m in 1H16, translating to a reported insurance margin of 4.3% (1H16: 1.4%). The movement between the respective halves reflects the net effect of:

- Continued challenging market conditions in the Business Division, where the focus remains on pricing and underwriting disciplines;
- 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;
- Substantially higher net natural peril claim costs, stemming from the Kaikoura earthquake; and
- A significantly favourable movement in prior period reserve releases, owing to the absence of the NZ\$150m increase to risk margin for the February 2011 earthquake event, recognised in 1H16.

Lower expenses
contributing to improved
administration ratio

Strong underlying
profitability maintained

7. NEW ZEALAND

New Zealand continues to generate a strong underlying performance. The lower 1H17 underlying margin of 15.3% (1H16: 18.4%) reflected a deterioration in working claim costs, as well as the cumulative effect of competitive pricing pressure in commercial lines, and was similar to 2H16.

	1H16	2H16	1H17
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	(143)	(6)	-
Natural perils	(14)	(25)	(123)
Natural peril allowance	28	28	32
Reserve releases	(18.8%)	(0.7%)	-
Natural perils	(1.8%)	(3.0%)	(14.8%)
Natural peril allowance	3.7%	3.4%	3.8%

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

MARKET REGULATION AND REFORM

The New Zealand Government has introduced the Fire and Emergency New Zealand Bill to Parliament. The Bill 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 Government and Administration Select Committee has provided to Parliament its report on the Bill, which is likely to be passed in early 2017.

Increases to the fire levy rates are planned to take place in July 2017, with consultation on the proposed changes underway and expected to be confirmed by Cabinet in early 2017. 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 July 2018. These revisions will result in operational changes to systems and products, as well as an adverse impact on the affordability of insurance. In contrast to equivalent levies in Australia, the New Zealand fire levy is not included in IAG's reported numbers owing to its directly transferable nature.

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. Although not yet finalised, the proposals meet many of the recommendations made by IAG and the local insurance industry, and include:

- The EQC exiting contents insurance and leaving this area entirely to private insurers to manage claims;
- The extension of EQC building cover to include more site works and access-ways to buildings, mirroring industry practice in commercial claims;
- Increasing the cap on EQC building cover from NZ\$100,000 (plus GST) to NZ\$200,000 (plus GST), with the possibility of ring-fencing some of this to cover site works; and
- Limiting land cover to situations where rebuilding is not practicable.

Timeframes for this reform have yet to be finalised. Officials have taken a single issues paper on site works and building cover to Ministers with the full reform package to be developed at a later date.

Proposed fire levy rate changes expected to require significant systems and product changes

Continued progress on EQC reform

7. NEW ZEALAND

The industry is expecting to receive an exposure draft of this package before legislation is introduced to Parliament, most likely in the first half of calendar 2017. Following the Kaikoura earthquake, it remains unclear whether legislation will be passed before the next election, scheduled for 23 September 2017. If implemented, it is expected the proposed EQC reforms will cause minimal change to revenue but require considerable operational change.

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;
- A review of the Commerce Act in relation to misuse of market power which the Minister is currently considering a second round of feedback on;
- A forthcoming review of the Insurance Prudential Supervision Act;
- Continued pursuit of reforms to the Resource Management Act, to strengthen the consideration of natural hazards in land use decisions, including a National Policy Statement of Natural Hazards; and
- Legislation strengthening recovery provisions within Civil Defence and Emergency Management legislation and developing an improved national strategy and framework for the management of large-scale natural hazards.

MARKET ENVIRONMENT AND OUTLOOK

The New Zealand economy remains solid with annual GDP growth of 3.6% for the year to June 2016 and growth expectations of 3.5-4.0% for the current year. Strong demand has been seen in the economy with solid retail spending, record net migration inflows and a buoyant housing market. Inflation remains at historically low levels, well below the Reserve Bank's 2% mid-point inflation target.

The New Zealand business' strategy continues to focus on maintaining its market-leading position by providing world-leading customer service and delivering strong underlying profitability by remaining focused on pricing and underwriting disciplines.

The New Zealand market is expected to remain competitive across both the Consumer and Business Divisions in the second half of FY17. IAG's priority is to continue to meet customers' needs while remaining focused on appropriately pricing for risk, with added emphasis following the recent Kaikoura earthquake.

Further modest growth in GWP is expected in 2H17, with sound continued growth in personal lines, from both volume and rate, accompanied by dissipating weakness in commercial lines. The business remains focused on maintaining strong underwriting disciplines and appropriately pricing for risk. It continues to assess rates, particularly those for high risk regions such as Wellington and high risk industries.

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

Underlying profitability
expected to remain strong

8. ASIA

FINANCIAL PERFORMANCE

	1H16 A\$m	2H16 A\$m	1H17 A\$m
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

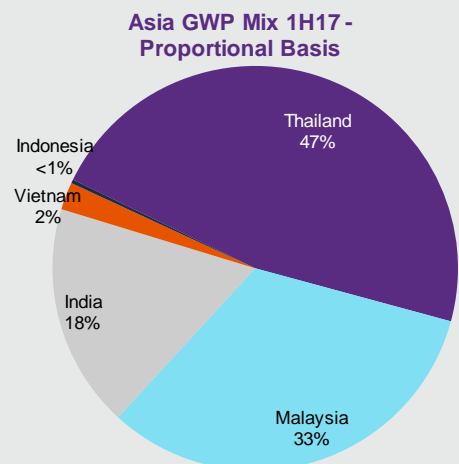
FINANCIAL CONTRIBUTION BY COUNTRY

	Gross GWP		Proportional GWP		Earnings Contribution	
	1H16 A\$m	1H17 A\$m	1H16 A\$m	1H17 A\$m	1H16 A\$m	1H17 A\$m
Thailand	184	173	184	173	10	-
Malaysia	252	245	123	120	17	10
Established markets	436	418	307	293	27	10
India	197	254	51	66	(2)	6
Vietnam	9	8	9	8	(1)	-
Indonesia	4	1	4	1	1	(2)
Developing markets	210	263	64	75	(2)	4
Total Asian operations	646	681	371	368	25	14
Support and development costs	n/a	n/a	n/a	n/a	(15)	(12)
Total divisional result	646	681	371	368	10	2

8. ASIA

EXECUTIVE SUMMARY

- IAG has a presence in five Asian markets: Thailand, Malaysia, India, Vietnam and Indonesia
- ~80% of c.\$800m investment in established businesses in Thailand and Malaysia
- Flat proportional GWP of \$368m - strong growth in India countered by challenging environment in Thailand and Malaysia
- Lower earnings contributions from Thailand and Malaysia in face of increased competition
- Move into profit by India, assisted by improved loss and expense ratios
- Lower overall divisional profit of \$2m (1H16: \$10m)



DIVISIONAL OVERVIEW

Asia represents a source of long term growth for IAG, with a presence established in five markets: Thailand, Malaysia, India, Vietnam and Indonesia. The growth opportunity in Asian general insurance is based on:

- The region housing the largest and one of the fastest-growing populations around the globe;
- Asia being expected to represent nearly 60% of global middle class consumption by 2030. Middle classes are a critical driver of growth with greater income elasticity for goods and services; and
- Relatively low insurance penetration rates compared to more developed regions of the world.

The future development of IAG's regional footprint is expected to be characterised by:

- Participation in the strong organic growth prospects presented by each market;
- Pursuit of industry consolidation opportunities in the key markets of Thailand and Malaysia;
- Ownership dial-up, where available (e.g. Malaysia);
- Entry into local partnerships (e.g. potentially Indonesia);
- Pursuit of adjacent business opportunities (e.g. takaful); and
- Improved returns on the back of progressively increased scale and maturity of constituent operations.

As at 31 December 2016, IAG's investment in Asia was \$797m, of which \$637m (80%) was in Thailand and Malaysia. The total investment is identical to that held at 30 June 2016, with the neutral movement since then reflecting an amalgam of retained earnings in 1H17, foreign exchange movements and a small capital injection in India.

The division contributed a total profit of \$2m in 1H17, including shares of associates, compared to a \$10m profit in 1H16. The lower result reflects:

- Weaker performances from the established businesses in Thailand and Malaysia, owing to increased competitive pressures on pricing and a deterioration in loss ratios; and
- A small profit from the developing businesses, comprising a move into profit in India on the back of improved claim and expense outcomes, breakeven in Vietnam and a small loss in Indonesia.

Asia remains attractive long term growth option for IAG

Net investment of ~\$800m in Asia

8. ASIA

The overall outcome also included a small net favourable movement in mark-to-market valuations of investments, as well as lower regional support and development costs.

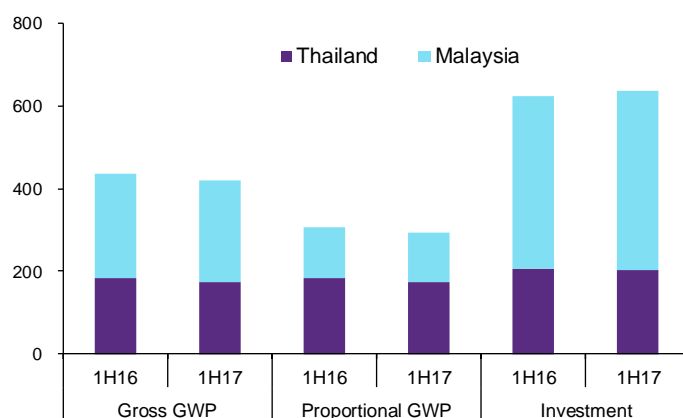
In 1H17, Asia represented 6.1% of the Group's GWP on a proportional basis (1H16: 6.4%). Proportional GWP in Asia amounted to \$368m in 1H17 (1H16: \$371m), and contained:

- Continued strong growth in India;
- Intensified market competition in Thailand driving GWP lower;
- Modest local currency growth in Malaysia, on the back of improved renewal retention, offset by lower average premiums; and
- Adverse foreign exchange translation effects. On a constant currency basis, proportional GWP would have increased by 3.2%, compared to 1H16.

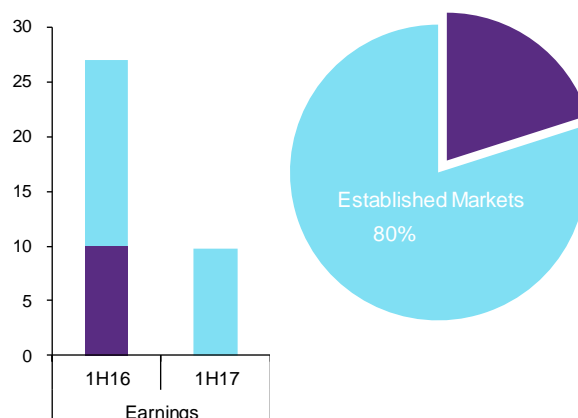
IAG has interests in Asian businesses whose combined annualised GWP pool is of the order of \$1.4bn.

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

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), following the establishment of an initial presence in Thailand in 1998. The business operates under a single licence while using two brands: Safety (personal lines) and NZI (commercial lines). Safety has established itself as the third largest motor insurer in Thailand on the back of a strong reputation for customer service.

Operating Performance

The Thai business' reported GWP declined by 6.0% in 1H17, compared to 1H16, and by 3.4% on a local currency basis. This reflects the combination of:

- Lower than expected growth in new vehicle sales;
- Intensified price competition in the motor segment; and
- Lower commercial volumes following a tightening of the risk selection process.

Weaker Thai GWP reflecting intensified price competition and adverse FX effect

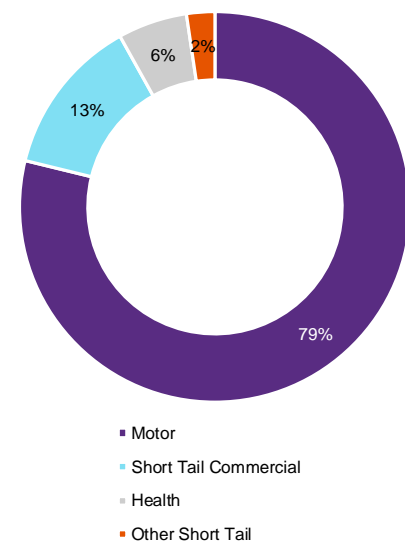
8. ASIA

The Thai business reported a breakeven result at the insurance profit line. This compared to an insurance profit of \$10m in 1H16, with the weaker outcome driven by a deterioration in the loss ratio. This was characterised by:

- A higher number of large losses in the engineering and fire classes;
- An approximately \$6m prior period reserve strengthening for those classes, compared to modest reserve releases in 1H16; and
- A regulatory-led increase in compulsory motor cover, while keeping premium rates unchanged.

SAFETY FINANCIAL PERFORMANCE	1H16 A\$m	2H16 A\$m	1H17 A\$m
Gross written premium	184	178	173
Gross earned premium	178	180	175
Reinsurance expense	(54)	(51)	(51)
Net earned premium	124	129	124
Net claims expense	(72)	(79)	(86)
Commission expense	(30)	(29)	(30)
Underwriting expense	(13)	(10)	(12)
Underwriting profit/(loss)	9	11	(4)
Investment income on technical reserves	1	2	4
Insurance profit	10	13	-
Insurance Ratios	1H16	2H16	1H17
Loss ratio	58.1%	61.1%	69.4%
Expense ratio	34.7%	30.2%	33.9%
Commission ratio	24.2%	22.3%	24.2%
Administration ratio	10.5%	7.9%	9.7%
Combined ratio	92.8%	91.3%	103.3%
Insurance margin	8.1%	10.4%	-

SAFETY – 1H17 GWP BY CLASS



Market Environment, Regulation and Reform

The long term outlook for Thailand remains positive. The Thai economy expanded by 3.2% in the first nine months of 2016, supported by robust exports of goods and services amid stagnant domestic consumption. The Central Bank anticipates the economy will maintain growth at 3.2% in 2016 and 2017, on the back of a gradual rebound in Thai households' purchasing power and the acceleration of the government's infrastructure investment program.

The Thai general insurance industry grew by 0.6% in the first ten months of calendar 2016, in the face of intense price competition in the motor insurance segment. Growth in the balance of calendar 2016 has been muted as consumer activity slowed following the passing of King Bhumibol.

While growth in motor remains challenging, the rising income of wealthier households and increasing medical expense costs are expected to underpin expansion in health insurance.

MALAYSIA

Market Presence

IAG owns a 49% interest in AmGeneral Holdings Berhad (AmGeneral), the general insurance arm of AmBank Group, Malaysia's sixth largest bank. The joint venture was established in 2006, and became the largest motor insurer in Malaysia following the acquisition of Kurnia Insurans (Malaysia) Berhad (Kurnia) in September 2012. Since 1 March 2013, the combined business has operated as AmGeneral Insurance Berhad using two market-leading brands, AmAssurance and Kurnia.

Modest local currency GWP growth from AmGeneral in 1H17, amid increasing competition

8. ASIA

Operating Performance

AmGeneral reported local currency GWP growth of 2% in 1H17, compared to 1H16. This follows the resumption of growth witnessed in 2H16, with improved renewal retention in the motor portfolio partially offset by lower average motor premiums in an increasingly competitive environment in the lead-up to detariffication. Upon translation, an adverse foreign exchange effect resulted in a 2.8% reduction in GWP, compared to 1H16.

AMGENERAL FINANCIAL PERFORMANCE	1H16 A\$m	2H16 A\$m	1H17 A\$m
Gross written premium	252	269	245
Gross earned premium	257	258	251
Reinsurance expense	(19)	(23)	(20)
Net earned premium	238	235	231
Net claims expense	(153)	(134)	(154)
Commission expense	(27)	(27)	(28)
Underwriting expense	(39)	(59)	(49)
Underwriting profit	19	15	-
Investment income on technical reserves	19	23	15
Insurance profit	38	38	15
Net profit after tax	34	47	20
Net profit after tax - IAG's share (49%)	17	23	10
Insurance Ratios	1H16	2H16	1H17
Loss ratio	64.3%	57.0%	66.7%
Expense ratio	27.7%	36.6%	33.3%
Commission ratio	11.3%	11.5%	12.1%
Administration ratio	16.4%	25.1%	21.2%
Combined ratio	92.0%	93.6%	100.0%
Insurance margin	16.0%	16.2%	6.5%

The Malaysian business continues to pursue growth from its distribution and customer service proposition strategy, including:

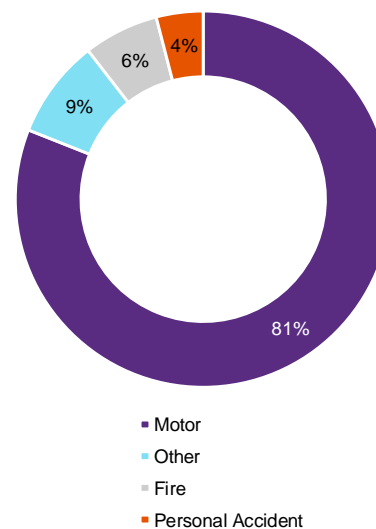
- A digital focus to support and improve customer and partner experience;
- The deployment of net promotor score tools to drive engagement with the customer and improve the customer journey;
- A revised distributor support model, especially around partnership management;
- An amplified program to increase premium from existing agents and via win-back campaigns; and
- A renewed focus on the commercial and non-motor market segments.

In 1H17, AmGeneral's insurance margin of 6.5% was significantly lower than 1H16 (16.0%), reflecting the combination of:

- Reduced net earned premium on the back of lower average premiums in the face of increased competition;
- A higher loss ratio of 66.7% (1H16: 64.3%), including the influence of higher repair costs arising from the franchise partnerships business and the adverse impact of the ringgit's depreciation;
- Higher administration expenses from accelerated project costs, including those associated with detariffication; and
- The absence of the prior period reinsurance recoveries which were included in 1H16.

AmGeneral's net profit after tax in 1H17 benefited from the profit realised on the disposal of properties, which was partially offset by an unfavourable movement in the mark-to-market valuation of investments.

AMGENERAL – 1H17 GWP BY CLASS



Lower insurance margin from range of underwriting, claim and expense factors

8. ASIA

Market Environment, Regulation and Reform

The Malaysian economy expanded by 4.2% in the first nine months of 2016, driven by strong domestic demand which was fuelled by higher wages and increased employment. The economy has proven resilient in the face of a protracted period of low commodity prices, a weakening Malaysian ringgit and a subdued global economy. The government anticipates sustained GDP growth of 4.2%, driven by domestic consumption and the implementation of infrastructure development projects.

The Malaysian general insurance industry grew moderately by 1.4% in the first nine months of 2016, as it continued to face the headwind of declining new motor vehicle sales.

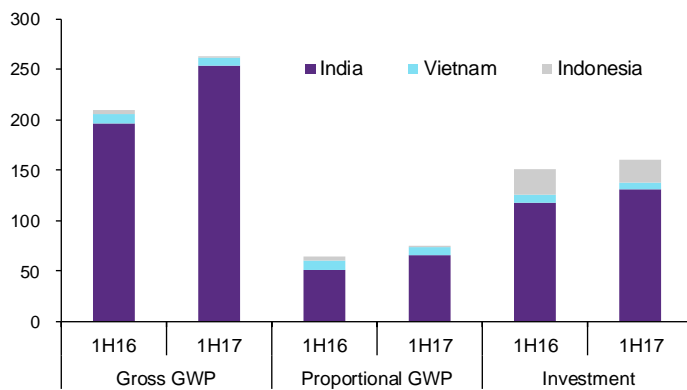
The operating landscape is expected to evolve with regulatory-driven liberalisation over the next few years, beginning with the phased implementation of detariffication of motor and fire insurance in July 2017. AmGeneral is well-prepared for the tariff reform.

By July 2018, both conventional insurance companies and takaful operators holding composite licenses will need to split their general and life / family businesses into separate legal entities. New regulatory capital treatment is expected to spur further consolidation opportunities in the industry and drive greater focus in each business segment.

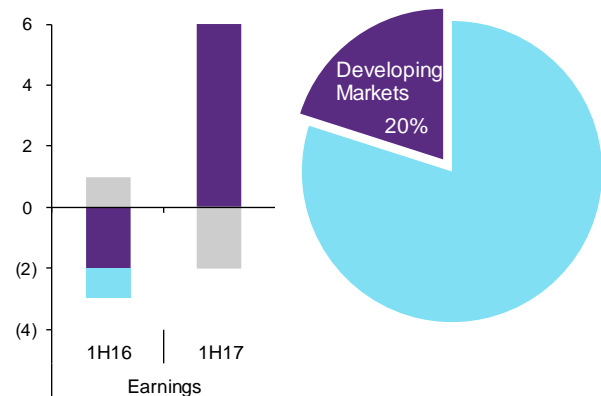
The Malaysian Competition Commission is investigating the wider general insurance industry in connection with agreements implemented by PIAM (the General Insurance Association of Malaysia) in relation to the automobile repair industry.

Moderate GWP growth expected, as detariffication commences

DEVELOPING MARKETS (A\$M)



% ASIAN INVESTMENT



INDIA

Market Presence

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

Following the 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 examine the potential exercise of this option.

Strong GWP growth and improved profitability from SBI General

8. ASIA

SBI GENERAL FINANCIAL PERFORMANCE	1H16 A\$m	2H16 A\$m	1H17 A\$m
Gross written premium	197	250	254
Gross earned premium	173	194	274
Reinsurance expense	(46)	(55)	(124)
Net earned premium	127	139	150
Net claims expense	(104)	(114)	(116)
Commission expense	(7)	(14)	(10)
Underwriting expense	(52)	(55)	(53)
Underwriting (loss)	(36)	(44)	(29)
Investment income on technical reserves	22	29	37
Insurance profit/(loss)	(14)	(15)	8
Net profit/(loss) after tax	(7)	(7)	21
Net profit/(loss) after tax - IAG's share (26%)	(2)	(2)	6
Insurance Ratios	1H16	2H16	1H17
Loss ratio	81.9%	82.0%	77.3%
Expense ratio	46.4%	49.7%	42.0%
Commission ratio	5.5%	10.1%	6.7%
Administration ratio	40.9%	39.6%	35.3%
Combined ratio	128.3%	131.7%	119.3%
Insurance margin	(11.0%)	(10.8%)	5.3%

Operating Performance

SBI General has continued to grow strongly, generating 1H17 GWP equivalent to \$254m (IAG's 26% share being approximately \$66m), an increase of nearly 29% compared to 1H16. Local currency GWP growth was over 37%.

GWP growth in 1H17 was led by increased health and personal accident insurance volumes through the bancassurance channel, as well as increased crop insurance volumes. During 1H17, underwriting and portfolio management actions were taken to reduce loss-making business in the agency channel.

SBI General is now the thirteenth largest general insurer in India, with an overall market share of around 2% as at 30 September 2016.

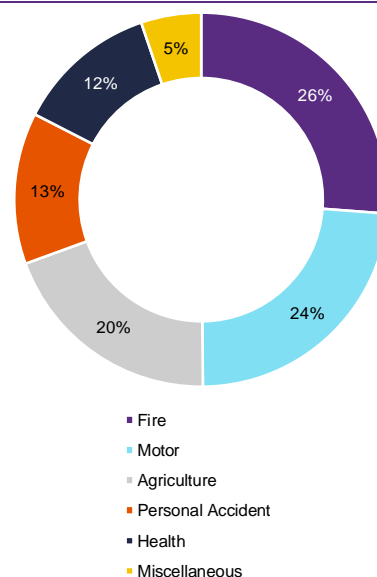
SBI General reported an insurance profit of \$8m in 1H17, compared to an insurance loss of \$14m in 1H16. This positive outcome comprised the net effect of:

- A lower loss ratio arising from reduced claims frequency alongside a favourable monsoon season in 1H17, partially offset by deterioration in the motor business;
- An improved expense ratio resulting from tightened cost control; and
- Higher investment income bolstered by business growth and a favourable mark-to-market movement in technical reserves income.

SBI General's net profit after tax was \$21m (1H16: loss of \$7m), of which IAG's share is approximately \$6m. This included a favourable mark-to-market movement in shareholders' funds income.

At the end of 1H17, SBI General had 75 products in the market, 109 dedicated branches across India and over 2,600 employees.

SBI GENERAL – 1H17 GWP BY CLASS



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

8. ASIA

Market Environment, Regulation and Reform

The Indian economy grew by 7.6% in the first six months of the fiscal year ending 31 March 2017, led by strong private consumption following increased public pay and higher rural demand assisted by near-normal monsoon conditions. The economy is expected to remain on a strong footing, driven by booming consumption, despite the temporary disruption from the government's recent currency demonetisation move.

The medium-to-long-term growth prospects for the general insurance market in India remain strong. The industry grew by 32% in the first eight months of the fiscal year ending 31 March 2017, led by growth from the new government-backed agricultural insurance schemes and increased penetration of motor insurance. Private insurers saw faster growth of 34% in GWP compared to government-owned insurers' growth of nearly 30%. The industry expects growth to remain strong in fiscal year 2017, 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. Recent regulatory changes and initiatives include:

- The passing of a new motor vehicle bill which makes it compulsory for government-owned vehicles, including buses, to buy third party insurance; and
- The Motor Accident Claims Tribunal asking the central government and police to devise a mechanism to clamp down on uninsured vehicles on the roads.

VIETNAM

Market Presence

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

Operating Performance

AAA Assurance recorded an 8% reduction in local currency GWP in 1H17, reflecting lower motor volumes. AAA reported a breakeven result, compared to a loss of \$1m in 1H16. The result reflected:

- An increase in the loss ratio to 37.5%, but in line with expectations, following the expiration of the earnings contribution from the run-off loan protection portfolio; and
- A lower expense ratio sustained by stricter expense control.

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.

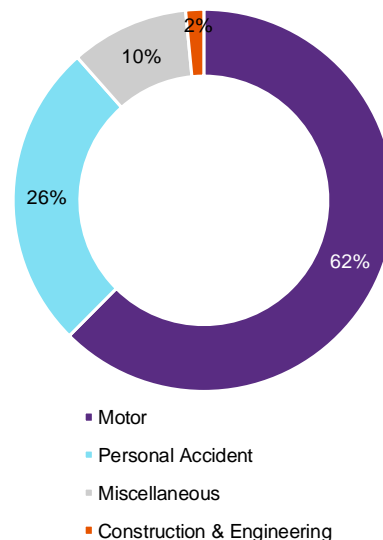
Market Environment, Regulation and Reform

The Vietnamese economy grew by 5.9% in the first nine months of calendar 2016, supported by strong exports and foreign direct investment, as well as stronger credit demand. Vietnam's economy has transformed into a manufacturing hub for electronic goods in the past few years. Wage cost competitiveness is key in attracting capital.

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

Breakeven result from Vietnam

AAA ASSURANCE – 1H17 GWP BY CLASS



8. ASIA

The long term outlook for Vietnam's non-life insurance sector remains positive, driven by a low penetration rate and a growing middle class. Motor represents approximately 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 industrial / commercial risks in the near term, while low incomes and constrained purchasing power of households hinder growth in the personal lines segment.

INDONESIA

Market Presence

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

IAG is progressing an agenda in Indonesia to pursue a long term distribution partnership, supplemented by the development of a new digital business model. Key activities in 1H17 included development of a customer-centric model proposition and finalisation of a digital rollout plan.

Operating Performance

In 1H17, Parolamas reported lower GWP of \$1m and a loss of \$2m.

Defined capability transfer programs have centred on improving costs and aligning business processes to Group standards. In 1H17, work focused on strengthening the foundations of the business, in terms of its operational and technical capability. Areas in progress include optimisation of the branch network, improving underwriting and claims controls, and establishing a robust risk and governance framework.

Market Environment, Regulation and Reform

The Indonesian economy grew by 5.0% in the first nine months of calendar 2016, and a similar outcome is expected for the full year. Growth is being supported by increased consumer spending, partially offset by weakness in external demand and lower prices for key commodity exports.

The insurance industry is expected to have expanded by 15-20% in 2016, supported by government infrastructure developments. Marine hull and loan insurance are benefiting from the government's respective maritime and small-to-medium-sized business programs, while lower automotive sales are weighing on motor insurance growth prospects.

Strong industry growth of the order of 10% per annum is anticipated over the next five years, driven by a large and young population, healthy economic growth, rising demand for non-life insurance products and an improving regulatory operating environment.

REGIONAL SUPPORT AND DEVELOPMENT COSTS

Regional support and development expenditure is deployed to support IAG's operational footprint in Asia. This covers a wide range of activities, including divisional level management, in-country capability transfer teams and the cost of developing opportunities in existing markets.

Total regional support and development costs for 1H17, of \$12m, were considerably lower than the run rate over the preceding 12 months. This reflected the division's new support model which was put in place to achieve greater cost efficiency and a more sustainable supply of specialist resourcing. Further efficiencies are expected to be achieved.

Securing a foundational partnership remains the key priority for Indonesia

Strong long term industry growth outlook in Indonesia

New support model delivering lower regional costs

8. ASIA

OUTLOOK

IAG's key markets in Asia currently face challenges to their underlying performance. The main focus is to restore underwriting profitability in the established markets of Thailand and Malaysia to past levels. GWP on a proportional basis is expected to register moderate growth, reflecting a softer pricing environment in increasingly competitive markets across the region, supplemented by continuing strong growth in India.

Thailand will focus on underwriting discipline in the light of uneconomic pricing undertaken by competitors amid a slow recovery in new vehicle sales. The business is actively seeking development opportunities to improve its risk selection and premium enhancement during the renewal process.

In Malaysia, AmGeneral will focus primarily on the implementation of remediation activity in underwriting and its motor claims operating model to improve profitability. The business continues to drive GWP growth through enhanced digital sales capability to deliver better service and customer experience.

Growth from SBI General in India is expected to remain strong, supported by maximisation of opportunities in profitable segments of the bank channel, and enhanced management of the agency and dealer network. The business is on track to achieve profitability in FY17 through more effective portfolio and expense management.

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

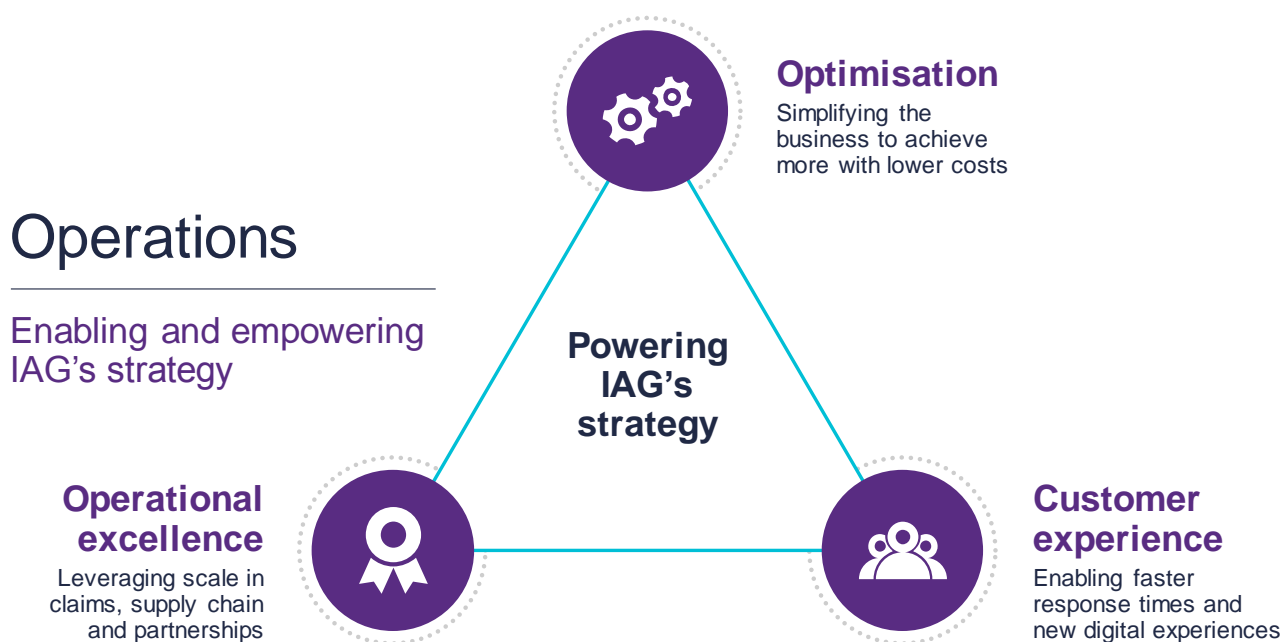
The emphasis in Indonesia will be to secure a suitable long term distribution partner and to progress digital-enablement opportunities, while continuing to strengthen technical capability and operational efficiency.

Restoration of underlying profitability levels in key markets will be main focus in 2H17

9. 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 the Group's operational partnering initiatives and drives the implementation and governance of the Group-wide optimisation program.



OPTIMISATION PROGRAM

Core to Operations' focus is the governance of all the activities that form the Group'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.

Four key value levers underpin optimisation:

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

FY17 ACTIVITIES

Specific initiatives commenced in 1H17 supporting these value levers include:

- Design of a governance model that provides enterprise-wide visibility, clear accountabilities and a transparent investment framework for the optimisation program and supporting initiatives;
- Ongoing 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 commenced in FY17

9. OPERATIONS

- Partner selection and execution of key agreements;
- Developing a partnering framework to build organisational capability; and
- The first partnering workstreams going live;
- 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 Group-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, the Sydney head office move being planned and other sites under review and negotiation; and
- Refresh of the 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.

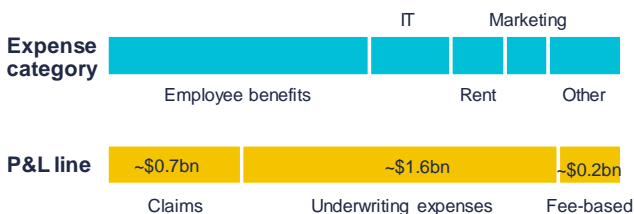
Optimisation program

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

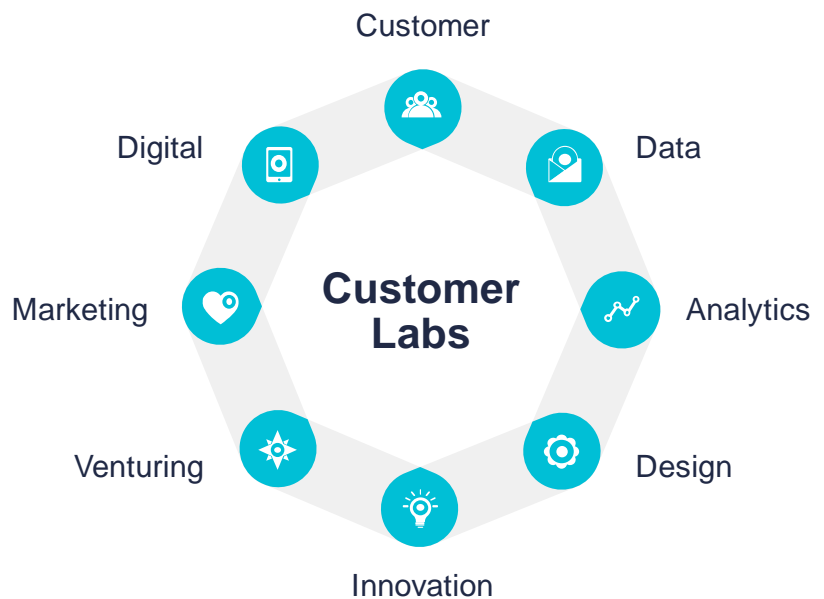
10. CUSTOMER LABS

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 across the Group, 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 for them in an increasingly digital world.

Customer Labs

Bringing capability together to shape customer-experience strategy and innovation



FY17 ACTIVITIES

Customer & Marketing

- Defining a world-leading customer experience and building customer journeys and experience strategies to reflect that;
- Finalising a new customer segmentation model that leverages deep data-driven insights and aligns them to brand and product propositions;
- Further building of a customer-led, data-driven culture across IAG, by aligning customer measurement, introducing customer training and education programs for all staff, and through making data open and accessible throughout the organisation; and
- Deploying a marketing automation system that allows IAG to optimise its marketing spend and interact with its customers directly.

Data & Analytics

- Leveraging IAG's single source of truth for data to allow an immediate understanding of customer actions across all channels;
- Personalising the customer experience through deep analytics to better understand customer behaviour;
- Building a culture of experimentation and continuous in-market testing, through in-market trials where offers can be automatically adjusted depending on customer take-up, as well as improved through cognitive computing techniques including machine learning;

From 1H17, Customer Labs includes responsibility for digital innovation across IAG

10. CUSTOMER LABS

- Developing and deploying a fraud analytics model that identifies fraudulent behaviour and helps IAG improve its response and claims effectiveness;
- Identifying opportunities to work more collaboratively with other corporations in the areas of customer experience and the use of data and information; and
- Continuing to build on IAG's world-class pricing capability by further improving pricing approaches and models and automating them where possible, leveraging advanced analytics techniques.

Ambiata

- Ambiata has developed an analytical tool providing the intelligent analytical layer that connects an organisation's data asset to its customer. It places measurement and model-build in the hands of a corporation's data scientists and cognitive intelligence at the centre of an organisation's decision-making.
- Already deployed in a number of top 20 ASX organisations, this product is being launched in Asia and North America over the next 12 months. During 1H17 Ambiata secured new arrangements with businesses in the US and Thailand.

Digital

- The introduction of a truly digital way of working across IAG, embracing lean manufacturing principles, design thinking concepts and agile and continuous delivery methods;
- Dedicated digital delivery teams for each division across IAG that are producing enhancements to digital capability at increasing velocity;
- Introducing API (application program interface) and mobile-first architecture, combined with the implementation of social coding to co-innovate and re-use technology within IAG;
- Developing scalable and cost-effective digital infrastructure, including platforms to accelerate learning and performance improvement, enabled through APIs and mobile-first applications that provide the opportunity to partner, co-innovate, and foster value-based ecosystems; and
- Working with IAG's risk, regulatory affairs and security teams to enable more extensive use of public cloud services, with the goal of utilising those services for more scalable and cost effective infrastructure.

Innovation & Venturing

- Launching new digital services that leverage existing capability in an innovative way, while harnessing emerging technologies including the 'Internet of Things', blockchain and drones;
- Leveraging research institutions and partners to co-innovate;
- Launching new on-demand insurance products and services including ShareCover and Insurance4That;
- The launch of Firemark Labs, an InsurTech innovation hub in Singapore that acts as an incubator for IAG to work with start-up, research and technology partners to co-create new products and services; and
- The announcement of IAG's Venture Fund with committed funding of \$75m to invest in, and partner with, emerging businesses that have the potential to disrupt the insurance value chain.

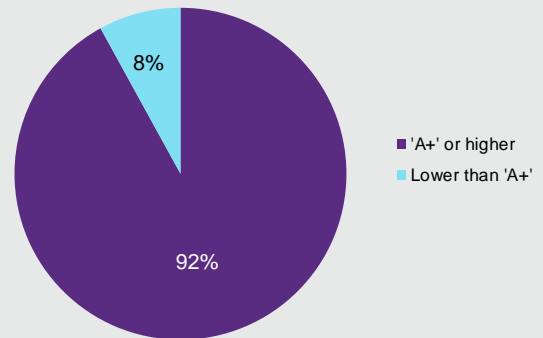
Innovation hub launched in Singapore

11. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Catastrophe program renewed 1 January 2017 with similar structure to prior years
- Gross catastrophe cover of up to \$7bn, placed to 80% to reflect Berkshire Hathaway quota share
- Group maximum event retention (MER) of \$200m at 1 January 2017, post-quota share
- Additional perils cover of \$96m in excess of \$680m, purchased for FY17
- CTP quota share agreement extended for minimum four-year period and expanded to South Australia

Counter-Party Risk - 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 reflect a 1-in-250 year return period in Australia, and are more conservative than the Australian regulator's 1-in-200 year return period requirement.

IAG's Australian-based captive reinsurer manages 100% of the total reinsurance spend of the Australian businesses. A key responsibility of the captive is to capture and manage counter-party and regulatory exposures.

IAG's international captive reinsurers underwrite 100% of New Zealand and Thailand treaty business and 95% for Vietnam, as well as a substantial amount from IAG's joint venture interests in Asia. Reinsurance in respect of IAG's small business in Indonesia continues to be placed directly with third party providers, in line with local regulatory requirements. IAG's international business units continue to place some facultative reinsurance directly with the external market.

IAG's international captive reinsurers provide considerable input to the reinsurance covers of its interests in Malaysia, India and Indonesia.

MARKET ENVIRONMENT

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

QUOTA SHARE AGREEMENT

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. The 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%

11. REINSURANCE

CATASTROPHE COVER

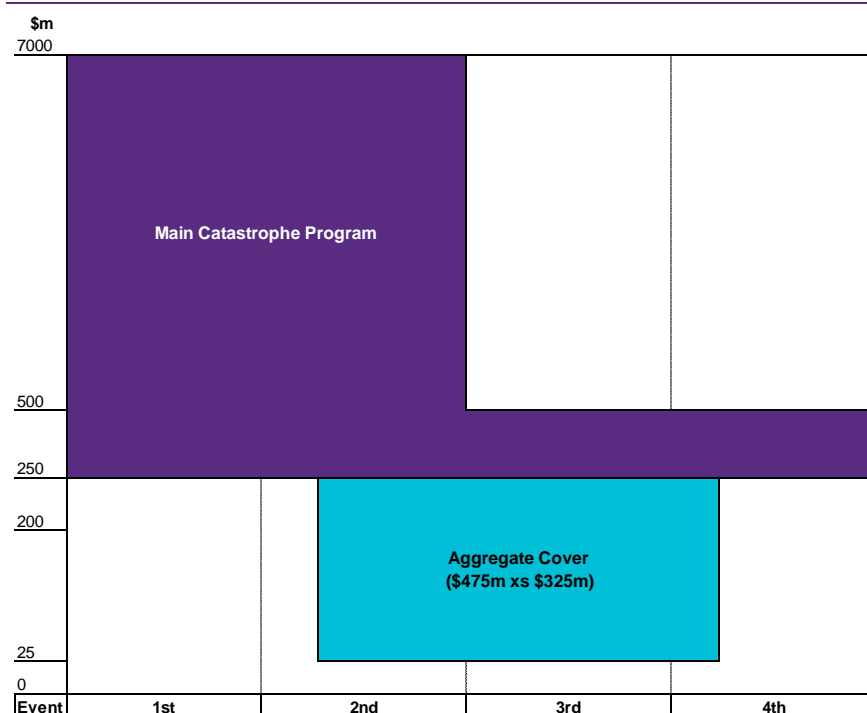
IAG's catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IAG operates, with the exception of the Group's joint venture interest in India which has its own reinsurance arrangements.

IAG's catastrophe reinsurance program for 2017 provides gross reinsurance protection of up to \$7bn (2016: \$7bn) and has been placed to the extent of 80%, after allowance for the 20% quota share arrangement with Berkshire Hathaway.

IAG's catastrophe reinsurance for 2017 has been constructed in a similar manner to prior years. Gross protection is consistent with IAG's 2016 program, reflecting a relatively stable overall aggregate exposure, where growth in short tail personal lines has been offset by reduced commercial portfolios, in both Australia and New Zealand.

Compared to 2016, IAG's 2017 catastrophe reinsurance program contains an increased multi-year component, which involves several counterparties.

GROSS CATASTROPHE REINSURANCE – AS AT 1 JANUARY 2017



Gross catastrophe cover of up to \$7bn, placed to 80% to reflect quota share

At renewal on 1 January 2017 the integrated 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).

11. REINSURANCE

The overall credit quality of the 2017 program is high, with over 92% (2016: 88.5%) placed with entities rated A+ or better.

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

The combination of all catastrophe covers in place at 1 January 2017 results in post-quota share first event retentions of \$200m for Australia, NZ\$200m for New Zealand, \$20m for Thailand and Malaysia, and approximately \$1m for Vietnam and Indonesia.

CTP QUOTA SHARE

With effect from 1 July 2016, IAG extended its quota share agreement with Munich Re in respect of 30% of its combined CTP book for a minimum four-year period, with an option for a further two years. Under the new agreement:

- The agreement for CTP written in NSW and the ACT, which commenced on 1 July 2013, was extended on similar terms and conditions; and
- CTP in South Australia, where one of IAG's brands commenced as an underwriter from 1 July 2016, was included.

The extension of the agreement with Munich Re preserves the enhanced capital efficiency that the original agreement conveyed. 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.

RUN-OFF PORTFOLIO PROTECTION

In February 2016, IAG completed an innovative package of reinsurance transactions with Berkshire Hathaway that materially mitigated IAG's 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.

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect it in all territories in which it underwrites. The majority of these were favourably renewed at 30 June 2016, with placement to 80% to reflect the Berkshire Hathaway quota share.

Where required by statute, unlimited cover is purchased where available and for other lines cover is placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

COUNTER-PARTY RISK

The counter-party credit profiles for IAG's key reinsurances as at 1 January 2017 are:

- Over 92% 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.

MER of \$200m, post-quota share

CTP quota share extended for at least four years

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

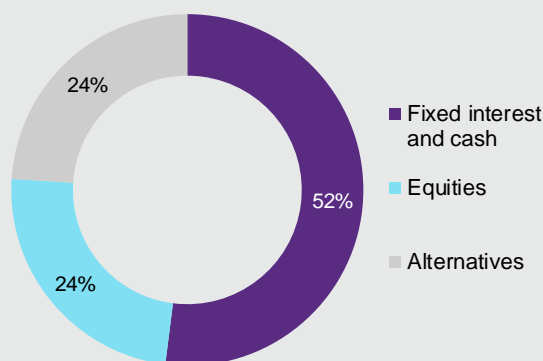
Strong counter-party risk profile maintained

12. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of \$12.3bn as at 31 December 2016
- Overall investment allocation remains conservatively positioned
- Technical reserves of \$8.3bn invested in fixed interest and cash
- Shareholders' funds of \$4.0bn – growth asset weighting of 48%
- Sound investment return on technical reserves
- Higher shareholders' funds return influenced by stronger equity market performance
- Strong credit quality maintained: 75% '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 84% of total investments in fixed interest and cash as at 31 December 2016. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 52%.

Distinct investment strategies for technical reserves and shareholders' funds

IAG's allocation to growth assets was 48% of shareholders' funds at 31 December 2016, which was similar to the allocation at 30 June 2016 and remains broadly in line with the long term targeted range. Within the growth asset allocation, alternative investments accounted for 24% of shareholders' funds, up from 22% at 30 June 2016.

GROUP INVESTMENT ASSETS

The Group's investments totalled \$12.3bn as at 31 December 2016, excluding investments held in joint ventures and associates, with 67% represented by the technical reserves portfolio.

Total investments reduced to \$12.3bn, reflecting further quota share effect and buy-back impact

The decrease in total investments since 30 June 2016 (\$12.9bn) reflects the combined effect of:

- Further reduction in technical reserves, mirroring the progressive effect of the 20% quota share in lowering related insurance liabilities; and
- The net reduction in shareholders' funds, where dividend payments (\$316m) and completion of the off-market share buyback (\$314m) exceeded operating earnings during the period.

12. INVESTMENTS

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

ASSET ALLOCATION

Since 30 June 2016, the main change to asset allocation has been a slightly higher weighting to growth asset categories within shareholders' funds.

Over 84% of investments in fixed interest and cash

GROUP ASSET ALLOCATION

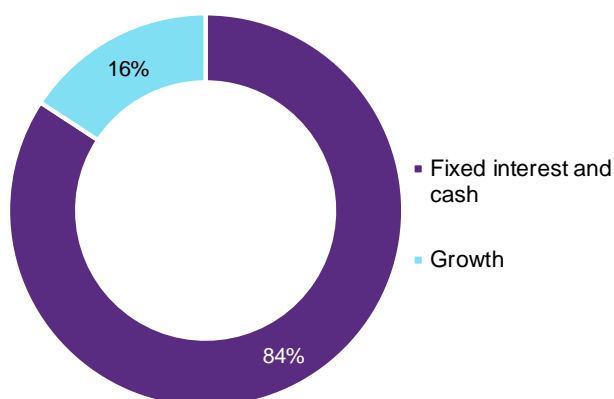
	1H16 %	FY16 %	1H17 %
SHAREHOLDERS' FUNDS			
Australian equities	16.6	8.5	7.8
International equities	8.8	17.1	16.7
Alternatives	22.1	22.2	23.5
Fixed interest and cash	52.5	52.2	52.0
Total	100.0	100.0	100.0
TECHNICAL RESERVES			
Fixed interest and cash	100.0	100.0	100.0
Total	100.0	100.0	100.0
TOTAL SHAREHOLDERS'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

CREDIT QUALITY OF ASSETS

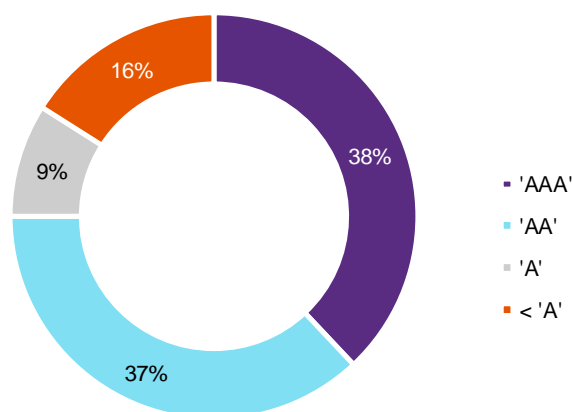
The credit quality of the Group's investment book remains strong, with approximately 75% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality maintained

GROUP ASSET ALLOCATION – 31 DECEMBER 2016



CREDIT QUALITY – 31 DECEMBER 2016



12. INVESTMENTS

SENSITIVITY ANALYSIS

As at 31 December 2016, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below and includes indirect sensitivities relating to alternative assets.

INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 31 DECEMBER 2016	Change in Assumption	
	+1%	-1%
	A\$m	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	(189)	202
Assets backing shareholders' funds	(31)	32
Total interest rate sensitivity	(220)	234

INVESTMENT PERFORMANCE

A sound investment return was achieved on the technical reserves portfolio in FY16, with related investment income of \$37m including:

- An unrealised capital loss of \$87m at period end (1H16: over \$30m gain), primarily associated with an upward shift in the yield curve since 30 June 2016. The 3-year government bond yield rose to 1.96% at 31 December 2016, from 1.55% at 30 June 2016;
- A positive impact of \$5m from the narrowing of credit spreads, compared to a negative effect of \$15m from the widening of spreads in 1H16; and
- An adverse foreign exchange impact of \$2m, 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 \$16m, was recorded in 1H16.

The average yield was slightly lower than that recorded in 1H16, after allowing for timing effects connected to implementation of the Berkshire Hathaway quota share in that period.

The portfolio continues to be aligned with the average weighted duration of the Group's claims liability, at two to three years. This was higher in 1H16, at three to four years, being prior to the transfer of long-dated assets associated with the asbestos portfolio, which was subject to a reinsurance arrangement in 2H16.

Investment returns on shareholders' funds were supported by the strong performance of equity markets, both domestic and offshore, in 1H16. The broader Australian index (S&P ASX200 Accumulation) delivered a positive return of 10.6% over the six months ended 31 December 2016 (1H16: negative 0.5%), while the MSCI World Total Return Index (AUD Hedged) registered a similar increase (1H16: negative 1.3%).

INVESTMENT INCOME	1H16	2H16	1H17
	A\$m	A\$m	A\$m
Technical reserves	174	289	37
Shareholders' funds	38	59	105
Total investment income	212	348	142

Sound return on technical reserves

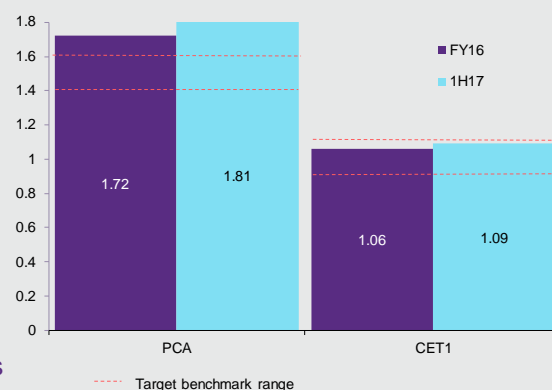
Higher shareholders' funds return owing to relatively strong equity markets

13. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
 - PCA multiple of 1.81 vs. benchmark of 1.4-1.6
 - CET1 multiple of 1.09 vs. benchmark of 0.9-1.1
- Period-end multiples enhanced by tactical investment derivatives position
- \$314m off-market buy-back completed in early October
- Active debt and hybrid capital management during 1H17
 - Capital Notes net raising of ~\$180m, after CPS reinvestment
 - ~\$360m of old Tier 2 instruments redeemed
- Capital mix in line with targeted range – debt and hybrids 35.4% of total tangible capitalisation
- 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
Assets			
Cash and cash equivalents	310	263	378
Investments	13,960	12,946	12,314
Investments in joint ventures and associates	455	486	489
Trade and other receivables	3,694	4,321	3,767
Reinsurance and other recoveries on outstanding claims	4,298	4,689	4,940
Deferred insurance expenses	2,852	2,778	2,869
Goodwill and intangible assets	3,590	3,410	3,366
Other assets	1,104	1,137	1,143
Total assets	30,263	30,030	29,266
Liabilities			
Outstanding claims	12,141	11,741	11,528
Unearned premium	6,027	6,220	6,163
Interest bearing liabilities	1,781	1,962	1,778
Trade and other payables	2,251	2,346	2,376
Other liabilities	914	976	810
Total liabilities	23,114	23,245	22,655
Net assets	7,149	6,785	6,611
Equity			
Equity attributable to holders of ordinary shares	6,930	6,563	6,388
Non-controlling interests	219	222	223
Total equity	7,149	6,785	6,611

IAG's total assets at 31 December 2016 were \$29,266m compared to \$30,030m at 30 June 2016. The net reduction of \$764m includes:

- A \$632m decrease in investments, including payment of the final dividend (\$316m), completion of the off-market share buyback (\$314m), the net redemption of debt and hybrid instruments (~\$180m), and net inflows from operating activities;

Balance sheet movements include impact of \$314m share buy-back

13. BALANCE SHEET & CAPITAL

- A \$554m reduction in trade and other receivables, largely reflecting settlement of reinsurance recoveries on paid claims pertaining to the FY11 Canterbury earthquake events; and
- A \$251m increase in reinsurance and other recoveries, driven by recoveries recognised in respect of the Kaikoura earthquake event in November 2016.

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 31 December 2016 were \$22,655m, compared to \$23,245m at 30 June 2016. Within the near-\$600m reduction:

- A \$213m decrease in outstanding claims, including the combined effect of the movement in the discount rate adjustment in line with the upwards shift in the yield curve, prior period reserve releases and claims attributable to the Kaikoura earthquake;
- A \$184m decrease in interest bearing liabilities, following the redemption of two Tier 2 issues, completion of the Convertible Preference Shares (CPS) reinvestment offer and the issue of Capital Notes; and
- A \$166m reduction in other liabilities, including the redemption of units in investment trusts and the seasonal settlement of short term incentive entitlements.

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

IAG shareholders' equity (excluding non-controlling interests) decreased from \$6,563m at 30 June 2016 to \$6,388m at 31 December 2016, predominantly reflecting the net effect of:

- Retained earnings in 1H17;
- Payment of the 13 cents per share final dividend (\$316m) in October 2016; and
- Completion of the \$314m off-market share buy-back in October 2016.

CAPITAL

Capital Adequacy

IAG remains strongly capitalised, with regulatory capital of \$4.5bn at 31 December 2016. At that date, IAG's Prescribed Capital Amount (PCA) multiple was 1.81, compared to a targeted benchmark of 1.4 to 1.6 times. This has increased from the 1.72 multiple reported at 30 June 2016, owing to the net effect of:

- The Group's sound earnings performance in 1H17;
- Payment of the FY16 final dividend of 13 cents per share;
- Completion of the \$314m off-market share buy-back;
- A modest further favourable impact from the Berkshire Hathaway quota share arrangement; and
- A tactical investment derivatives position at the end of 1H17 which reduced the asset risk charge.

At 31 December 2016 the Group's Common Equity Tier 1 (CET1) ratio was 1.09 times the PCA, compared to a targeted range of 0.9 to 1.1 times and a regulatory requirement of 0.6 times.

Excluding the impact of the investment derivatives position, IAG's capital ratios at 31 December 2016 were 1.70 PCA and 1.02 CET1.

IAG is strongly capitalised

13. BALANCE SHEET & CAPITAL

After further allowance for the 1H17 dividend of 13 cents per share, which will be paid at the end of March 2017, the PCA multiple at 31 December 2016 would be at the upper end of IAG's benchmark range, while the CET1 multiple would be at the lower end of the equivalent target range.

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

Interest Bearing Liabilities

The Group's interest bearing liabilities stood at \$1,778m at 31 December 2016, compared to \$1,962m at 30 June 2016. The net decrease comprises:

- The issue of \$404m Capital Notes, qualifying as Additional Tier 1 Capital;
- The buy-back of \$224m Convertible Preference Shares, 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.

All the capital management initiatives referred to above were completed in the month of December 2016.

Lower debt and hybrid capital, after sequence of initiatives in 1H17

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

13. BALANCE SHEET & CAPITAL

IAG intends to buy back the \$153m balance of Convertible Preference Shares at their next call date in May 2017. Based on the capital position at 31 December 2016, such a buy-back would reduce IAG's PCA by approximately 5bps.

GROUP DEBT & HYBRID CAPITAL	Principal amount		Yield	Rate	First Call or Exchange date	S&P rating
	A\$m	A\$m	%			
Subordinated term notes ¹	A\$350m	350	4.59%	Variable	Mar-19	'A-'
Subordinated fixed rate notes	NZ\$350m	337	5.15%	Fixed	Jun-22	'BBB'
Total debt		687				
Convertible Preference Shares (IAGPC) ²	A\$153m	153	4.19%	Variable	May-17	'N/R'
Reset Exchangeable Securities (IANG) ³	A\$550m	550	4.04%	Variable	Dec-19	'BBB+'
Capital Notes (IAGPD) ⁴	A\$404m	404	4.55%	Variable	Jun-23	'N/R'
Total hybrid capital		1,107				
Total debt & hybrid capital (pre-capitalised transaction costs)		1,794				

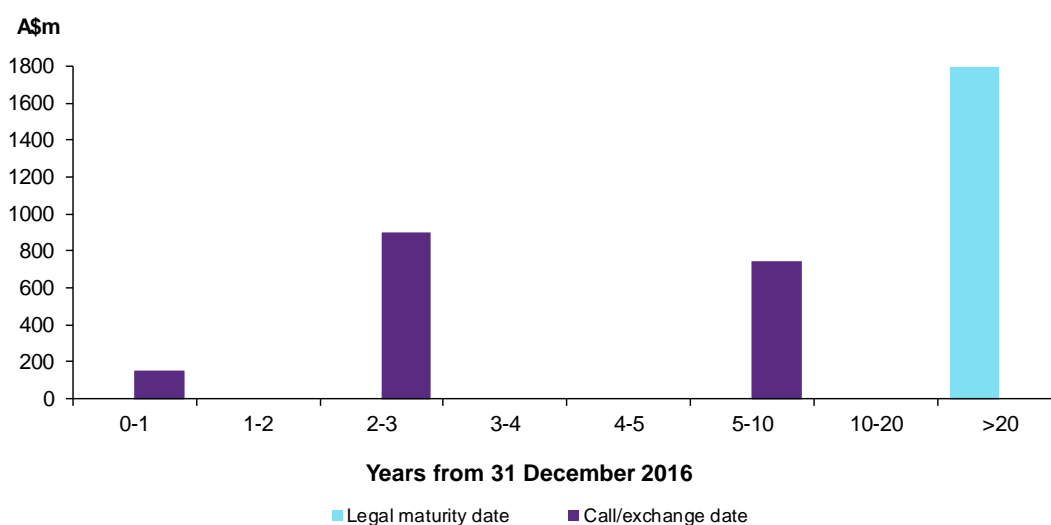
¹ Stated yield based on margin of BBSW + 2.80%.

² Dividend yield on the Convertible Preference Shares is a cash yield, excluding attached franking credits.

³ The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

⁴ The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

GROUP DEBT MATURITY PROFILE



Capital Management

It remains IAG's intent to manage its capital position broadly in line with its stated benchmark ranges, at both the PCA and CET1 levels.

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

IAG has announced a small shareholding sale facility for shareholders with holdings valued at \$500 or less, enabling eligible shareholders to sell their shares without incurring any brokerage costs. This is expected to be completed in April 2017 and, based on the position at 17 February 2017, would be open to approximately 10,500 shareholders with a combined position of approximately 330,000 shares.

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

13. BALANCE SHEET & CAPITAL

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 31 December 2016, IAG's capital mix stood close to the mid-point of its targeted ranges, with debt and hybrids representing 35.4% of total tangible capitalisation.

Capital mix within targeted ranges

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

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.

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 31 December 2016..

APPENDIX B IAG BUSINESS SNAPSHOT

CONSUMER DIVISION

Consumer Division products are sold in Australia through branches, call centres, the internet and representatives, under:

- The NRMA Insurance brand in NSW, ACT, Queensland and Tasmania;
- The SGIO brand in Western Australia;
- The SGIC brand in South Australia;
- The RACV brand in Victoria, via a distribution agreement with RACV;
- The Coles Insurance brand nationally, via a distribution agreement with Coles; and
- The CGU brand through affinity and financial institution partnerships, as well as direct and broker / agent channels.

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

BUSINESS DIVISION

Business Division products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents, motorcycle dealerships and financial institutions, and directly through call centre and online channels. The Business Division is a leading provider of business and farm insurance, and also provides workers' compensation services in every state and territory, except South Australia and Queensland.

The Business Division operates across Australia under the following brands:

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

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 IAG's Consumer Division.

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; roadside assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.



IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV established in 1999. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV.

If one of IMA's shareholders experiences a change of control, the other has a pre-emptive right to acquire that shareholder's interest at fair market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA's reinsurance of NRMA Insurance-branded products in NSW and the ACT.

COLES INSURANCE

IAG established a ten-year distribution agreement with Coles (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, the Consumer Division underwrites car and home products for Coles Insurance in Australia.



ASIA

AMBANK GROUP

Established in August 1975, AmBank Group is one of the largest banking groups in Malaysia. The Group comprises AMMB Holdings Berhad, a public listed company on the Main Board of Bursa Malaysia. The Group offers a comprehensive range of both conventional and Islamic financial solutions through its retail banking, wholesale banking, general insurance, life insurance and family takaful businesses.



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

STATE BANK OF INDIA

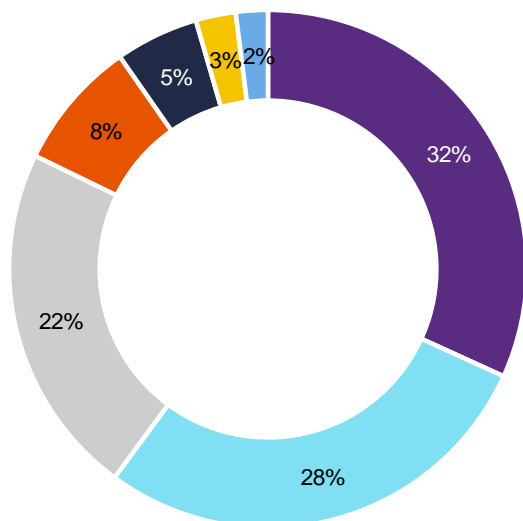
State Bank of India (SBI) is India's largest and oldest bank, with origins back to 1806. It offers a broad range of banking and financial services, and has a footprint which spans over 300 million customers and in excess of 17,000 branches across all states of India, excluding associate banks.



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

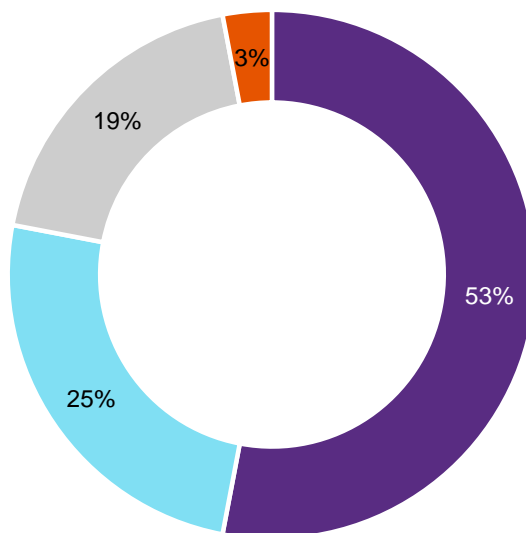
APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT — 1H17



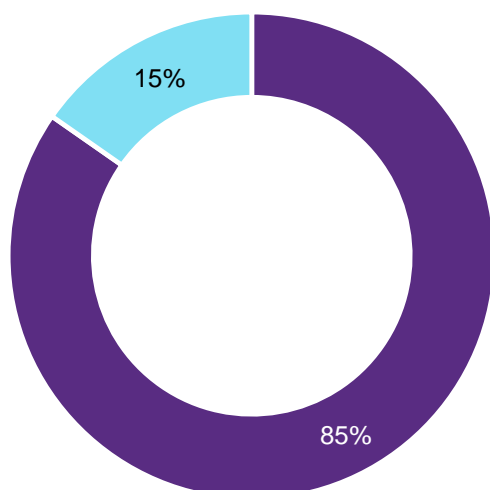
- Motor
- Home
- Short tail commercial
- CTP/motor liability
- Liability
- Other short tail
- Workers' compensation

IAG GROUP GWP BY BUSINESS — 1H17



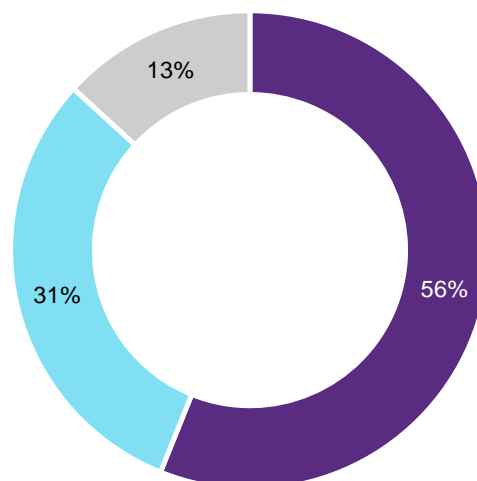
- Consumer Division
- Business Division
- New Zealand
- Asia

IAG GROUP GWP BY TAIL — 1H17



- Short tail
- Long tail

IAG GROUP GWP BY CHANNEL — 1H17



- Direct
- Intermediated
- Affinity

APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 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>.

19-AUG-16 IAG POSTS SOUND FINANCIAL RESULTS FOR FY16

IAG reported a FY16 insurance profit of \$1.18bn, equating to a reported insurance margin of 14.3%. This was described as a sound result in light of relatively flat GWP, which reflected challenging operating conditions in the Australian and New Zealand commercial markets. Net profit after tax of \$625m was 14.1% lower than FY15 after significantly lower investment income on shareholders' funds, which reflected relatively flat equity markets. IAG announced a final dividend of 13 cents per share, contributing to a full year payout ratio of 72.9%. IAG provided initial FY17 guidance of relatively flat GWP and a reported insurance margin in the range of 12.5-14.5%.

19-AUG-16 IAG ANNOUNCES \$300M OFF-MARKET SHARE BUY-BACK

IAG announced its intention to return around \$300m to shareholders through an off-market ordinary share buy-back, conducted by way of a tender process closing on 7 October 2016.

26-AUG-16 IAG OFF-MARKET BUY-BACK BOOKLET

IAG released the booklet in respect of the off-market share buy-back announced on 19 August 2016.

6-SEP-16 NOTICE OF ANNUAL GENERAL MEETING

IAG's Notice of Annual General Meeting was released to the market.

23-SEP-16 DIVIDEND REINVESTMENT PLAN PRICING

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$5.3287 per share for the dividend payable on 5 October 2016.

4-OCT-16 GROUP EXECUTIVE DIGITAL AND TECHNOLOGY LEAVES IAG

IAG announced that Group Executive Digital and Technology, Claire Rawlins, had left IAG.

7-OCT-16 IAG EXTENDS CTP QUOTA SHARE AGREEMENT

IAG advised it had extended the quota share agreement with Munich Re that covers 30% of its CTP business for a minimum four-year period from 1 July 2016, with an option for a further two years.

7-OCT-16 IAG OFF-MARKET SHARE BUY-BACK - VWAP MARKET PRICE

IAG announced the VWAP Market Price for its off-market share buy-back had been determined to be \$5.5127.

10-OCT-16 IAG COMPLETES OFF-MARKET SHARE BUY-BACK

IAG advised that, following strong demand, it would buy back shares to the value of around \$314m, amounting to approximately 64m shares or 2.6% of its ordinary issued capital. The buy-back price of \$4.91 was after application of a buy-back discount of 11%.

APPENDIX E KEY ASX RELEASES

21-OCT-16 IAG ON TRACK FOR FY17 GUIDANCE

At its annual general meeting in Sydney, IAG told shareholders it was on track to achieve its guidance for the 2017 financial year. IAG also confirmed it would hold a strategy day on 8 December and advised that Raymond Lim would retire from the Board on 15 February 2017.

1-NOV-16 IAG TO REDEEM TIER 2 DEBT ISSUES

IAG advised it was giving notice to holders of two Tier 2 subordinated debt instruments that it would proceed with their redemption at forthcoming issuer call dates in December 2016. Redemption of the two issues (amounting to approximately \$357m) would result in IAG's PCA multiple reducing by approximately 4bps.

18-NOV-16 IAG PROVIDES NATURAL PERILS UPDATE

IAG advised it anticipated a net cost of up to \$200m from the recent trans-Tasman storm and New Zealand earthquake events. After consideration of its reinsurance protection, IAG reaffirmed its expectation that its FY17 net natural peril claim costs would be in line with its \$680m allowance.

21-NOV-16 IAG LAUNCHES CAPITAL NOTES OFFER

IAG announced an offer of Capital Notes to raise \$300m, with the ability to raise more or less. The Capital Notes qualify as Additional Tier 1 Capital and IAG advised the proceeds would be used for general corporate purposes and to refinance some of the existing Convertible Preference Shares (CPS). A concurrent reinvestment offer to CPS holders was announced.

24-NOV-16 IAG ANNOUNCES MARGIN ON CAPITAL NOTES AND INCREASES TRANSACTION AMOUNT FOLLOWING COMPLETION OF THE BOOKBUILD

IAG announced that it had successfully completed the bookbuild for its Capital Notes offer and, due to strong demand, had allocated \$350m under the broker firm and institutional offers, up from \$300m originally announced. The margin was set at 4.7%.

8-DEC-16 IAG PROVIDES STRATEGY UPDATE

At an investor briefing, IAG provided an update on its 3-5 year strategy, which supports the delivery of its through-the-cycle targets of a cash ROE equivalent to 1.5 times IAG's WACC, a top quartile TSR and compound EPS growth of around 10%. It includes:

- Measures to enhance the customer experience through better understanding and segmentation to drive business growth in line with the market of around 3-5%, in its core markets of Australia and New Zealand;
- Higher growth from IAG's focused strategy on chosen Asian markets;
- An optimisation program that will reduce gross operating costs by an annual run rate of at least 10%, or \$250m pre-tax, by the end of FY19; and
- Benefits from ongoing innovation in capital management.

IAG's optimisation program, which will simplify its operating model, includes:

- Partnering with global insurance and business process experts to simplify IAG's processes and reduce complexity;
- Consolidation of core claims and policy administration systems to reduce them from 32 to two platforms; and
- A simpler procurement model.

The company reaffirmed its FY17 reported margin guidance of 12.5-14.5%.

APPENDIX E KEY ASX RELEASES

- 15-DEC-16** **2017 FINANCIAL CALENDAR**
- IAG provided details of its financial calendar for 2017.
- 16-DEC-16** **NOTICE OF REDEMPTION OF NEW ZEALAND SUBORDINATED BONDS**
- IAG filed notice to NZX Limited of the redemption of its NZ\$187m subordinated bonds issue.
- 20-DEC-16** **IAG CLOSES REINVESTMENT OFFER FOR CAPITAL NOTES**
- IAG advised that, under its reinvestment offer, CPS holders had elected to reinvest approximately \$224m into IAG's Capital Notes issue.
- 22-DEC-16** **IAG SETTLES ITS CAPITAL NOTES OFFER**
- IAG announced the completion of its Capital Notes offer, which raised \$404m of Additional Tier 1 Capital.
- 22-DEC-16** **IAG COMPLETES REDEMPTION OF FIXED / FLOATING RATE SUBORDINATED BONDS DUE 2026**
- IAG filed notice to the London Stock Exchange that it had completed the redemption of £100m of subordinated fixed / floating rate notes.
- 23-DEC-16** **IAG APPOINTS NEW DIRECTORS**
- IAG announced it had appointed Dr Helen Nugent AO and Duncan Boyle to its Board as independent non-executive directors.
- 23-DEC-16** **IAG TO PROVIDE SMALL SHAREHOLDING SALE FACILITY**
- IAG advised it intended to establish a small shareholding sale facility for shareholders with holdings valued at \$500 or less.
- 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.

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 are quoted as IAGPC on ASX.
CREDIT SPREAD	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
DEFERRED ACQUISITION COSTS (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DISCOUNT RATE	In accordance with Australian accounting standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.

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>IAG 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 31 December 2016
- Reset Exchangeable Securities (**IANG**): 5,500,000 on issue at 31 December 2016
- Convertible Preference Shares (**IAGPC**): 1,530,150 on issue at 31 December 2016
- Capital Notes (**IAGPD**): 4,041,265 on issue at 31 December 2016

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ\$350m outstanding at 31 December 2016

KEY DATES

Interim dividend – ordinary shares

- Ex-dividend date 28 February 2017
- Record date 1 March 2017
- DRP record date 2 March 2017
- Payment date 30 March 2017

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

Payment date for IAGPC dividend 2 May 2017

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

Announcement of full year results to 30 June 2017 23 August 2017*

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*

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

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