A SAFER FUTURE.

INSURANCE AUSTRALIA GROUP LIMITED

ANNUAL REVIEW AND SUSTAINABILITY REPORT 2017

ABN 60 090 739 923

A SAFER FUTURE

Our purpose is to make your world a safer place and we are committed to exploring opportunities to use technology to achieve this purpose and help mitigate the risk of loss for our customers and the wider community.

TACKLING FLOODS WITH TECHNOLOGY

Our cover shows a DipStik flood monitoring system installed at the Wedderburn Causeway near Campbelltown in New South Wales. NRMA Insurance and NSW State Emergency Services (SES) are supporting a 12-month trial of this Australian flood monitoring technology that aims to reduce the costs and risks associated with floods through early detection and warning.

The trial is being conducted in partnership with local councils in six flood-prone regions: Campbelltown, Liverpool, Shellharbour, Coffs Harbour, Wollondilly and Dungog. Over 18 units have been installed as part of the trial. The DipStik units are already being used in locations across Victoria independently from this trial.

DipStik was developed by Australian technological firm Tuftec Solutions. It works by monitoring water levels 24 hours a day, seven days a week. When a storm occurs, warning messages are sent to the council and NSW SES so they can take appropriate measures and advise the local community of floodwater risk.

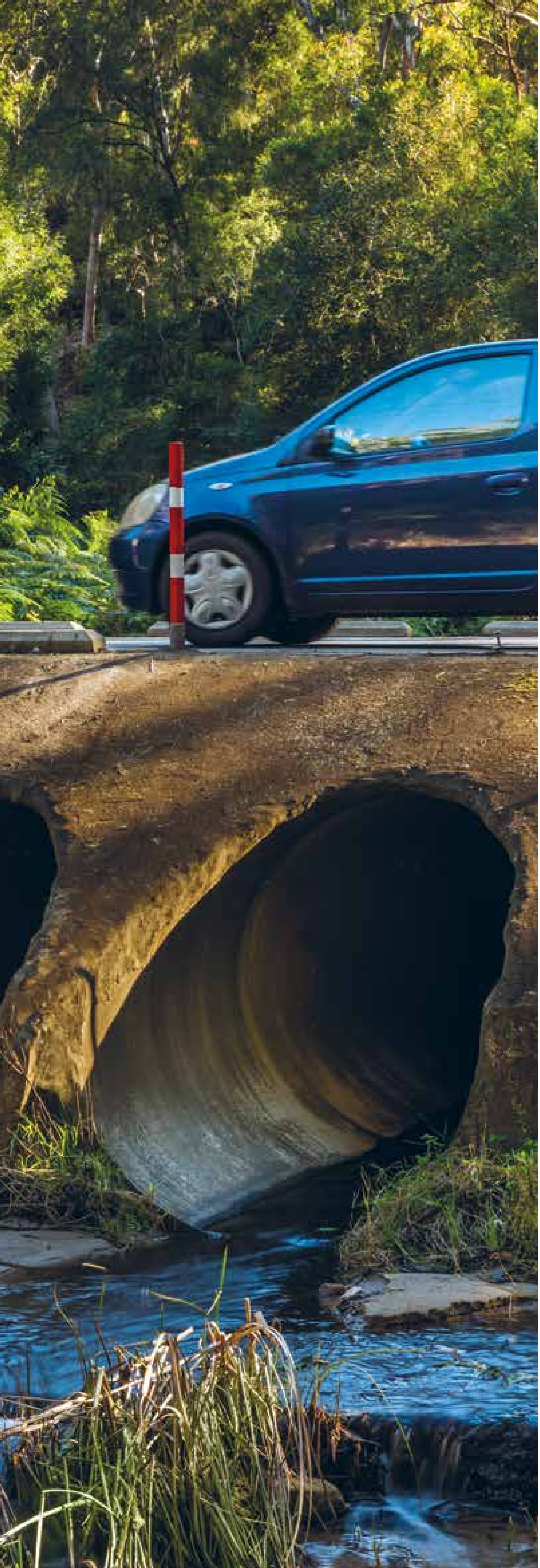
DipStik is also fitted with a high-powered flashing beacon that can warn oncoming motorists and the local community that an area or road is flooded.

Each DipStik device is powered by solar panels so no external power connections are required; a small battery storage unit attached to each device allows it to work throughout the night and during inclement weather.

Some of the DipStik units are fitted with digital camera technology. This enables them to capture periodic images of local conditions and post them to a special website to assist with flood event management.

With floods estimated to cost Australian communities over $400 million each year, smart monitoring systems like DipStik provide early warning of floods and can play a vital role in helping communities plan for and manage flood events. By providing real-time data, DipStik can also lead to improved understanding of flood trends in local areas.

The trial is part of the commitment of NRMA Insurance and NSW SES to help communities better understand, reduce and prevent risks associated with natural disasters.



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ANNUAL GENERAL MEETING

IAG's annual general meeting will be held on Friday, 20 October 2017, at the Wesley Conference Centre, 220 Pitt Street, Sydney, commencing at 10.00am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders and available online at www.iag.com.au, from Tuesday, 5 September 2017.

In keeping with our **Safer** theme for this year's reporting suite, the Australian Red Cross and NSW SES will have people available at our 2017 annual general meeting to advise shareholders about how to prepare for the summer storm season.

CHAIRMAN'S REVIEW

Contributing to society and helping to address issues important to our communities are core to our role as an insurer, and go to the heart of our purpose 'to make your world a safer place'.

ELIZABETH BRYAN AM
CHAIRMAN

BEING TRUE TO OUR PURPOSE: MAKING YOUR WORLD SAFER

This year we have seen increasing calls in the media and from government and regulators for companies to improve the trust of their stakeholders by delivering more than strong financial results. The business community is being called on to make a wider contribution to society and, where possible, play a role in helping solve community problems.

Contributing to society and helping to address issues important to our communities are core to our role as an insurer, and go to the heart of our purpose 'to make your world a safer place'. We have built a trusted relationship with our customers and communities over many years by keeping our promise to be there for them when things go wrong. By broadening our approach from helping individual customers who have suffered loss, to mitigating the risk of loss for people in the wider community, we are expanding on our trusted relationships and building long term value for our shareholders.

KEEPING OUR PROMISE TO OUR CUSTOMERS

Several significant natural disasters over the year enabled us to do what we do best: help our customers and their communities recover from the economic and social damage these events cause.

The three largest events to affect Australia and New Zealand – the Kaikoura earthquake in New Zealand last November; Tropical Cyclone Debbie in Queensland and Northern New South Wales in March; and the northern Sydney hail storms of February – provided an invaluable opportunity to demonstrate the vital role insurers play in communities affected by extreme weather and geological events.

The $8,995 million we paid in claims during the financial year helped our customers get back on their feet, and helped their communities recover.

While paying claims is an important part of what we do, we also provided practical support in damaged areas like Mackay in Northern Queensland and Lismore in New South Wales. We moved claims teams into affected areas as soon as it was safe to do so, and partnered with the Australian Red Cross and the local SES to support them in their work providing safety and social services.

BROADENING OUR SUPPORT FOR CUSTOMERS

IAG has long worked with customers to develop products that meet their needs. This year, insights we gained from our closer relationships with broader consumer groups enabled us to rethink how our products can best work for vulnerable customers in particular. The result was a revision of mental health exclusions in our travel policies, reflecting today's expectations that mental health conditions should be thought of in a similar way to physical health issues.

We also took practical steps to provide training and resources to employees who are in a position to support vulnerable customers.

The company continues to focus on ways of helping people avoid incidents before they occur. The DipStik early flood warning system that features on the cover of this report and a driver distraction app are two excellent examples of us using our knowledge of risk to prevent loss or injury.

We are participating in the Australia and New Zealand Driverless Vehicle Initiative to prepare for the changes driverless vehicles might have on how we get around, and how we insure our customers. Insurance is a key part of the safe and effective adoption of driverless vehicles, and we have an ongoing and important role to play in ensuring consumer trust, protection and safety on the road.

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CARING FOR COMMUNITIES, AND SOCIETY

IAG has a shared value approach that identifies practical ways to apply our purpose, support communities and create value for the company. This year, we asked communities to tell us what particular issue we could address to help them feel safer. This research identified a lack of connectedness, and led to a Confident Communities program where IAG will partner with the Australian Red Cross and the SES to build community resilience.

Similarly, our work with the Australian Business Roundtable for Disaster Resilience & Safer Communities, and Resilient New Zealand has reinforced our understanding of the social and financial costs of natural disasters and the importance of investing in mitigation work to reduce risk before damage occurs.

We have a global role in the United Nations Environment Programme Finance Initiative (UNEP FI), and use this to understand the many issues related to climate change and natural disasters, and to develop industry-wide solutions.

The Board was pleased to endorse a three year plan from management to lead the insurance industry in our region on the issue of climate change. To achieve this, we will consider the impact of climate change in our work with our customers and suppliers, and in our product development, investments and business operations.

SUPPORTING OUR PEOPLE

None of the outcomes described in this annual review could have been achieved without the people who make up IAG and, on behalf of the Board, I would like to acknowledge their care and commitment. Recognising the importance of protecting the health and wellbeing of our people, the Board accepted management's 2020 Work, Health & Safety Strategy which addresses four key areas of risk: psychological health; flexible and mobile workforce; emergency and security management; and physical health, to provide a framework within which we can support people as the business continues to evolve to deliver for our customers.

OUR RESULTS REFLECT A YEAR OF ACHIEVEMENT

This is the first full-year result produced by our CEO Peter Harmer and his Group Leadership Team and they have built on last year's performance to deliver strong results. From gross written premium of $11,805 million, they have achieved a net profit after tax of $929 million, cash earnings of $990 million and a cash return on equity of 15.2%.

Shareholders will benefit from this strong performance through the year, with a fully franked final dividend of 20.0 cents per share, to be paid on 9 October 2017. The dividend takes the full-year dividend to 33.0 cents per share, a payout ratio of nearly 79% consistent with our increased dividend payout policy of 60-80% of cash earnings for the full year.

The Board is pleased with the results achieved this year, and with the ongoing progress from Peter and his team as they maintain their focus on the strategic priorities of customer, simplification and our people.

In closing, I would like to thank my fellow Directors for their support and guidance throughout the year, and congratulate Peter and his Group Leadership Team, and all those in IAG who have worked so hard to deliver these results.

I hope you share my pride in what we have achieved this year, and my confidence that we have the skills, knowledge and passion to retain our trusted position and meet society's expectations that we will make a difference to the lives of those we come into contact with – in our offices, in our branches, in our communities and in our region.

CEO'S REVIEW

For the 2017 financial year, we recorded a sound performance in our key measures, demonstrating our ability to focus on our core business, and the future.

PETER HARMER
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

ENSURING OUR FUTURE SUCCESS

This year, we made significant progress in our work to ensure the future success of our company by pursuing the key elements of our strategy:

- better understanding who our current and future customers are, and their needs and expectations, so we can put them at the centre of everything we do;
- simplifying our business and making it more efficient; and
- embracing innovation to prepare for a future where customers' needs are based on experiences rather than products.

WORKING WITH OUR CUSTOMERS TO PREPARE FOR THE FUTURE

One of our strategic priorities is to deliver amazing customer experiences that contribute to making their world a safer place.

Everything we do needs to start with our eight million or so customers. We work with them to design products, experiences and marketing programs; we empower our frontline people to solve customer needs or problems in real time; and we provide world-class experiences around claims and repair work. The success of our approach is shown in the fact that our net promoter scores increased steadily across all of our brands this year.

This year, we developed a world-leading way of understanding our customers which defines a range of their needs, hopes and life stages. With this understanding, we can offer the right customers the right products at the right time.

We have improved our understanding of what is important to our customers, and the communities in which we operate, by bringing in an "outside" view through our Consumer Advisory Board, our Ethics Committee and our work with the Australian Business Roundtable for Disaster Resilience & Safer Communities, as well as Resilient New Zealand.

We helped to highlight the scale and cost of fraud in the compulsory third party insurance scheme and contributed to significant reforms which will benefit all motorists in New South Wales.

Our work with the Australia Business Roundtable and Resilient New Zealand to create more resilient communities and encourage investment in infrastructure has led us to adopt a stronger position on the impact of climate change.

Looking further ahead, we are developing an impressive innovation pipeline for products and services, evidenced by the launch of Firemark Labs in Singapore and in Sydney. Firemark Labs will connect IAG talent, insights and capabilities with external partners who can help us design new customer experiences. We have already partnered with several organisations, including The University of Sydney, cyber security start-up UpGuard and rental platform Snug.co, and they will now work within Firemark Labs on new projects. Both Firemark Labs hubs will be supported by Firemark Ventures, our $75 million fund to invest in, and partner with, start-ups and emerging businesses that can help us understand how the principles of disruption might help our customers, and therefore our business.

CREATING A SIMPLER, MORE EFFICIENT BUSINESS

The factors that created the successful company we are today have added complexity that we are working to remove. We have grown by acquiring other businesses, and their systems and processes, so we need to simplify our technology systems and standardise our processes to make us easier for our customers to do business with.

I'm pleased to say we are well advanced in our work to reduce our 32 policy and claims systems down to two and we have started work to rationalise our product range from around 1,500 to just over 400. We also received court approval to consolidate our Australian insurance licences from nine to two which will simplify our processes and eliminate duplication in our reporting work.

Advances in technology mean that many processes within our industry can be automated, and we have established partnerships with some global leaders in the field of automation in areas such as accounts to improve our efficiency and reduce costs. The savings we achieve are being invested in improving the services we offer, and developing new and improved products that meet the changing needs of our customers.

We took a further significant step to simplify our business in July 2017 when we announced the creation of one Australian business, headed by Mark Milliner as CEO Australia. Australia Division brings together Consumer, Business, Satellite and Operations to create a single Australian business responsible
for delivering our customer experience.

All these actions are core to us achieving the commitment we made in December 2016 to reduce our gross operating costs by an annual run rate of at least 10%, or $250 million pre-tax, by the end of the 2019 financial year; we are on track to achieve this.

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SUPPORTING OUR PEOPLE TO MEET CUSTOMERS' NEEDS

We know we need to continuously help our people build their skills so we – and they – can be agile, flexible and innovative in meeting new and emerging customer needs.

This year, we started to implement a Leading@IAG management framework that will help our people better understand what is expected of them, and empower them to make decisions that can bring our purpose to life.

FINANCIAL PERFORMANCE

For the 2017 financial year, we recorded a strong performance in our key measures, demonstrating our ability to focus on our core strategic business as well as the future.

Our gross written premium – basically the money we collected from the products we sold during the year – rose by 3.9% to $11,805 million, reflecting a very loyal and satisfied customer base as well as rate increases to counter increased motor claim costs.

Net profit after tax of $929 million was nearly 50% higher than last year. This outcome reflects a higher insurance profit, as well as a significantly higher contribution from investment income on shareholders' funds, from stronger equity market returns. Our result was negatively affected by a greater than $30 million deterioration in the contribution from fee based business, including a provision for costs associated with withdrawal from the New South Wales workers' compensation scheme; and a slightly higher tax rate of 23.6%, compared to last year.

Last year's result included nearly $140 million (post-tax) of non-cash accelerated amortisation and impairment of capitalised software assets.

Our reported insurance margin was 14.9% – slightly above last year's 14.3% – due to the inclusion of significantly higher-than-expected reserve releases, partially offset by increased natural peril costs.

It was a tougher year in terms of our underlying insurance margin, which shows our reported insurance margin, with reserve releases above 1% of net earned premium, net natural peril claim costs less our related allowance, and credit spread movements stripped out. The lower underlying insurance margin of 11.9%, compared to 14.0% last year, fell short of our original expectations because of higher than expected claims inflation in our business in Australia and New Zealand; and higher large losses in commercial classes, notably in Australia, in the second half of the year.

OUTLOOK

We expect to report an improved underlying operating performance in the 2018 financial year, with low single digit growth in gross written premium, and our reported insurance margin guidance for the year is for a range of 12.5-14.5%. This incorporates a lower reserve release expectation of at least 2% of net earned premium.

IAG – like others in the insurance industry – has traditionally been product focused. Moving from a product to a customer focus is not easy: it takes time, and it takes significant change to the way we operate and the mindsets we bring.

This is the challenge we are embracing, and I believe we have a really exciting opportunity ahead of us and should look to the future with confidence.

We have an ambitious purpose, and strong businesses in our key geographies of Australia, New Zealand, Thailand and Malaysia. We have a diverse and loyal customer base; we have skilled and passionate people; and we have market-leading capabilities in designing and pricing products, managing claims and repairs, distributing our products and, most importantly, in customer service.

We are well advanced in our work to build a successful and enduring company for our customers, our people, our shareholders and everyone in the community who relies on us.

[1] Underlying assumptions behind the reported insurance margin guidance are:
- net losses from natural perils in line with allowance of $680 million, after taking into account the status of the aggregate cover at 30 June 2017. At that date, this cover was active, providing approximately $340 million of protection (post-quota share) for the six months to 31 December 2017 and serving to limit a first event retention to $20 million;
- prior period reserve releases of at least 2% of net earned premium, on the assumption that the presently particularly benign inflationary environment continues to prevail;
- no material movement in foreign exchange rates or investment markets; and
- a relatively neutral impact from optimisation program initiatives, as benefits are matched by related costs.

While prior period reserve releases of at least 2% of net earned premium are expected in the 2018 financial year, it remains IAG's belief that long term reserve releases of around 1% of net earned premium are a recurring feature of reported operating results in benign inflationary periods.

CFO'S REVIEW

Our goal is to create a strong, diversified and flexible capital platform able to respond as our business priorities change.

NICK HAWKINS
CHIEF FINANCIAL OFFICER

MANAGING OUR CAPITAL FOR STRENGTH AND FLEXIBILITY

This year, we continued to manage our strong capital position to deliver on our promise to our people, customers, shareholders and other stakeholders.

Our goal is to create a strong, diversified and flexible capital platform able to respond as our business priorities change. Two decisions inform our approach:

- how much capital we need, and
- the best form of capital to fund that need.

We have had a consistent view on the amount of capital we need for some time now: we want our capital level to be around 50% above our minimum regulatory requirements. We have, however, made changes to the form and mix of our capital, creating more flexibility and optionality.

When we demutualised in 2000, our capital platform was equity from our mutual owners and catastrophe reinsurance. Today, we have a more sophisticated approach to funding the company. We think of this in terms of three big buckets:

- equity,
- debt and hybrids, and
- reinsurance, which also has some different components.

Our equity funds come from a diverse group of Australian and international institutions, as well as retail investors – many from our original mutual days.

RETURNING SURPLUS CAPITAL TO INVESTORS

We returned surplus capital to our investors via our dividend policy, and an off-market buy-back announced in August 2016 and completed in October 2016, which bought back $314 million worth of stock at an 11% discount.

RESHAPED DEBT INSTRUMENTS MAKE MORE EFFICIENT CONTRIBUTION TO REGULATORY CAPITAL

At 30 June 2017, we had around $1.6 billion of debt and hybrids on our balance sheet, sourced from Australian and New Zealand investors. We have reshaped our debt instruments over the last 12 months so they make a more efficient contribution to our regulatory capital. Our AA-minus rating for our key wholly owned operating entities is aligned to a gearing mix of around 30-40%. Our current debt and hybrids level puts us at the bottom end of that target range.

OUR THINKING ON REINSURANCE HAS DEVELOPED

There has also been a lot of activity in the area of reinsurance as we have developed our thinking. Reinsurance provides us with:

- catastrophe cover,
- operating capital, and
- volatility covers.

Catastrophe cover is about protecting us from the aggregation of risks. Australia and New Zealand are unusual markets: they are wealthy countries; people generally live in large cities close to each other on the coast; we have large market shares; and many of our cities are in relatively high peril exposed areas. That means that one event can affect many of our customers at the same time. We buy $8 billion of cover to protect against the infrequent but expensive events – making us one of the largest reinsurance buyers in the world.

Operating capital in reinsurance is when we enter into quota share arrangements. We have one of these with Munich Re, covering 30% of our compulsory third party insurance portfolio, to reduce the disproportionate amount of capital this portfolio requires us to hold versus the premium pool. The second, a 10-year, whole of account agreement with Berkshire Hathaway, was completed two years ago and removes considerable volatility from our earnings by exchanging 20% of our insurance risk for a fee-based income stream.

Importantly, in both cases these capital transactions have not affected the operations of the business, which we continue to run outright.

As part of our broader capital management program, we are currently exploring additional reinsurance quota share opportunities with our counterparties which have the potential to further strengthen our regulatory capital position.

We also have had volatility covers for a number of years, and are using them to help us manage earnings volatility. They take two forms: aggregate cover to protect us from the cumulative cost of a greater number of smaller natural peril events than we originally anticipated; and protection for claims that exceed our perils allowance.

We continue to be in a strong capital position and see further opportunities to optimise our capital platform.

THE YEAR IN NUMBERS

FINANCIAL STRENGTH

$11,805m
Gross written premium
up 3.9% from 2016

14.9%
Reported insurance margin[1]
up 60 basis points from 2016

11.9%
Underlying insurance margin
down 210 basis points from 2016

15.2%
Cash return on equity
up 220 basis points from 2016

$1,258m
Insurance profit[1]
up 6.8% from 2016

$990m
Cash earnings
up 14.2% from 2016

$4.5bn
Total regulatory capital

SHAREHOLDERS

697,978
Holders at 1 August 2017

33.0cents
Per share full year dividend

$746m
in dividends paid to shareholders

CUSTOMERS

17.5m
Policies or risks in force

$8,995m
Claims paid

NET PROMOTER SCORE:

22%
Australia
consistent with 2016

41%
New Zealand
up from 34% in 2016

THIS YEAR, OUR AUSTRALIA AND NEW ZEALAND BUSINESSES INSURED:

6.54m
Cars
1 in 4 cars

2.76m
Homes
1 in 4 homes

178,800
Farms

133,000
Employers

930,000
Businesses

COMMUNITY

4,968 hours
Volunteered by employees

$8.9m
Community investment

[1] The 2016 financial year insurance profit and insurance margin in this review are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure in IAG's 2016 annual report. A reconciliation between the two is provided on page 7 of the 2016 annual report.

OUR PURPOSE AND STRATEGY

OUR PURPOSE

Our organisation is driven by our purpose: to make your world a safer place.

OUR STRATEGY

To achieve our strategy we are focusing on three priorities which we are bringing to life through the themes of leading and fuelling:

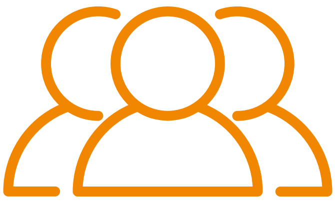
Customer

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

Simplification

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

LEADING **FUELLING**



Agility

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

More information on what we have achieved in each of these areas is set out on pages 10-11 of this annual review.

OUR MATERIAL ISSUES

Each year, we identify the material issues which could affect our ability to achieve our strategy, or deliver on our purpose.

We engage with a wide range of stakeholders to identify issues that are important to our customers, employees, partners, shareholders and the communities in which we operate. We then prioritise these issues based on their potential to affect our business performance, the areas where we can make the greatest positive impact, and their importance to our stakeholders.

Based on these assessments, our material issues for 2017 were:

Customer and partner experience

Meeting the evolving needs of our customers and partners is critical to our long term success. We aim to make the experiences customers and partners have with us world class, through technology, smart ideas and the way they interact with us. To do this, we are shifting from being a product-centred organisation to one that places the whole of customer needs at the forefront of our decision making. We recognise that our customers and partners also have great ideas and capabilities, and we are reconfiguring our business to harness those.

Future-focused innovation

In a disrupted and changing world, we must continue to adapt and evolve our business model to ensure we remain relevant. Responding to and anticipating the future needs of our customers through innovation and product development are critical for our business sustainability. We want to lead the change that's happening in the lives of our customers and in our industry. Our ability to achieve these goals depends on our ability to become an agile organisation, embracing agile ways of working as well as simplifying processes and systems to remove complexity from our business.

Access and affordability

Many people do not have adequate insurance cover for reasons ranging from affordability issues, to a lack of understanding of their needs, or a lack of suitable insurance products. The increasing frequency of extreme weather is also affecting the affordability and accessibility of insurance. Non-insurance and under-insurance reduce our customers' ability to recover from adverse events, which can affect the ability of whole communities to recover. IAG is seeking to address this issue by developing new products, through expanded levels of cover and by advocating for increased investment in disaster mitigation.

Community resilience

Building community resilience is vital to reducing the cost of the increasing risk to lives, livelihoods and property. Improving understanding of the risks people face is critical to improving safety on our roads, in our homes and in businesses. Resilient communities are better prepared and recover more quickly, which results in fewer claims and lower costs for our business, and safer, stronger and more confident communities.

Financial performance

Managing our financial performance sustainably is critical to our long term success and our ability to deliver value to our shareholders and other key stakeholders. Details of our financial performance are contained throughout this annual review.

Organisational culture aligned to purpose

A strong organisational culture is a key ingredient for us to achieve sustained commercial success and deliver on our purpose. Our culture must ensure we connect our teams to create solutions that will benefit our customers, communities and shareholders. We continue to build trust in our organisation by being authentic in the way we communicate and run our business. By maintaining high standards of ethics, we will create a culture where customers trust that we will deliver on our purpose and our promise to them, and we will inspire meaningful work and a shared sense of purpose for our people.

Climate change and natural perils

Every year our customers are affected by natural disasters and IAG pays millions of dollars in claims to help them recover. Climate change is having an impact on the frequency and severity of natural perils which poses a significant challenge to the insurance industry, and the communities we support. We believe we have a role to play in using our knowledge of risk to help customers, partners and communities understand and manage the changing risk environment, build resilience and navigate the transition to a low carbon economy.

KEY: show alignment to our strategic priorities

PROGRESS AGAINST

OUR STRATEGIC PRIORITIES

Our strategic priorities – customer, simplification and people – are being brought to life through two themes: leading and fuelling.

Leading has our customers at the core and aims to make the experiences that they have with us world class, through technology, smart ideas and the way they interact with us.

Fuelling means tackling the necessary changes to the way we operate, simplifying processes and systems and optimising resources so that ultimately we are efficient, thereby fuelling investment in our leadership.

LEADING

FUELLING

AGILITY

Our ability to achieve our leading and fuelling goals depends on our ability to become an **agile** organisation, where we can be more responsive to the needs of our customers.

Pages 10-11 provide examples of the actions we have taken this year as we pursue our strategic priorities.

Customer

Our goal is to deliver amazing customer experiences that contribute to making their world a safer place.

This year, we introduced a number of new and enhanced products and services to better meet customer needs.

We developed product design principles to ensure that our products and services meet the needs and expectations of our customers; deliver fair value for money and protect our customers from the risk of unexpected financial loss; and are easy to understand.

We expanded our partner repair network across all our brands in Australia to deliver the industry-leading standards captured in our IAG Quality Framework to every customer, with every repair. The standards cover the quality of repairs as well as the quality of customer service and the speed of repairs. We also streamlined our claims lodgement, assessment and repairs process to help get our customers back on the road faster.

In New Zealand, AMI built on its 'new New Zealanders' program for non-English speaking migrants, with a new digital and voice service for Chinese speaking business customers, and established its first specialist Chinese speaking claims team.

IAG also launched its first rapid repair facility in Auckland's North Shore, in partnership with Repair Management New Zealand, to help customers get their cars back faster.

In late 2016, NZI became the first insurer in New Zealand to insure a fully automated vehicle, when we insured a 15-person driverless electric shuttle that is being trialled at Christchurch International Airport.

In Australia, the New South Wales Government has partnered with IAG, HMI Technologies, NRMA Motoring & Services, Telstra and the Olympic Park Authority on a two-year trial of the state's first driverless shuttle, at Olympic Park. Our insurance expertise is invaluable, given that insurance is a critical part of the safe and effective adoption of driverless vehicles to ensure trust, protection and safety on the road.

In an effort to reduce distracted driving, we are developing and testing a smartphone app that will reward good driving behaviour. The app will track whether drivers used their phones in the car trip for any reason whatsoever and will offer rewards to motivate good driving behaviour.

We launched a multi-peril crop insurance product to protect farmers against yield shortfall caused by natural perils such as flood, frost, drought and vermin. Crop Income Protection is being offered to Landmark customers insured with CGU and WFI, who grow crops in Western Australia, South Australia, Victoria and New South Wales.

Through NRMA Insurance and CGU, we are offering specialised hobby farm insurance products directly to customers, online. Customers can cover leisure and hobby farms under 80 hectares that generate less than $50,000 turnover each year, and include their domestic homestead as well as their farm operations on one policy.

To better meet the needs of small-to-medium enterprises and more complex business risks, CGU launched Fusion, a newly combined machinery, computer and business interruption product.

NRMA Insurance introduced a new customer management system to enhance the quality and efficiency of conversations with customers. It also added lifestyle products such as caravan to its online product range.

Looking to the future, we established the Firemark Labs incubation hub in Sydney and Firemark Labs innovation hub in Singapore to drive innovation and collaboration by connecting IAG talent, insights and capabilities with external partners who can help IAG design new customer experiences for today – and tomorrow.

Already, we have partnered with several organisations, including The University of Sydney, cyber security start-up UpGuard and rental platform Snug.co, who will work within Firemark Labs on new projects.

Firemark Labs Sydney and Singapore will be supported by Firemark Ventures, our $75 million fund that will invest in, and partner with, both start-ups and emerging businesses that have the potential to disrupt the insurance value chain.

In India, SBI General is launching a new process for motor claims where a claim is handled by a single claim handler from initiation to settlement. Customers receive updates on the status of their claim directly from the claim handler managing their claim, leading to an improved customer experience.

In Thailand, Safety is establishing a stable and cost efficient method of measuring the Claims team's net promoter scores, using tools to capture data and communicate results to management.

Simplification

We need to simplify our operating platform to allow us to deliver amazing experiences to our customers, in the most efficient and effective way. Simplifying our operating platform will also create capacity for us to continue to invest in, or fuel, our business.

Advances in technology mean that many processes in our industry can be automated and we have established partnerships with global leaders in automation to improve our efficiency and reduce costs.

Our Operations division is working to consolidate and simplify IAG's core technology systems across Australia and New Zealand, including using the proven Guidewire platform. We are well advanced on our work to reduce our 32 policy and claims systems to two and have started work on rationalising our product range from 1,500 products to just over 400.

We took a significant step towards simplifying our business in July 2017 when we announced the creation of one Australian business, headed by Mark Milliner as CEO Australia. The Australia Division brings together the Consumer, Business, Satellite and Operations divisions to create a single Australian business with end-to-end responsibility for the customer experience.

In New Zealand, a centralised Operations unit has been established to simplify and unify our claims operating model, bringing together the Consumer claims team, Business claims team, and Claims Services to improve claims performance and better deliver to our customers' needs.

We further simplified our business from 1 August 2017 when we consolidated our nine Australian insurance licences to two.

These actions are core to us achieving the commitment we made in December 2016 to reduce our gross operating costs by an annual run rate of at least 10%, or $250 million pre-tax, by the end of the 2019 financial year.

Agility

Our ability to achieve our leading and fuelling goals depends on our ability to become an agile organisation where our people have a sense of alignment and greater clarity on how they can respond to the evolving needs of our customers.

Agility at IAG encompasses being connected to our customers, partners and people; building stronger relationships; and a focus on achievement. Our organisational design enables this approach and we measure our progress regularly.

THE WAY WE WORK

The way we work is defined in our spirit of closer, braver, faster. Closer captures our move from a product centred approach to a customer centred approach; braver applies to the important organisational change we are making from being siloed, to being less hierarchical; and faster covers the need for decisiveness in a changing world.

We are changing our ways of working to support our customer and simplification priorities. For example, we use human centred design thinking to build solutions in an interactive customer centred way, collaborating across our divisions.

While we build our business plans for the longer term, we structure these into rolling three-month plans that help focus our leaders' attention on the critical few challenges that will drive our strategy.

ORGANISATIONAL DESIGN

We are building an effective, adaptive organisational design that works today, and allows us to continue to build and adapt. The recent establishment of the Australia Division demonstrates our successful application of organisational design. The design of the organisation has focused on the work we need to do to be successful. We have also considered the reporting relationships that will help drive performance and support our people.

MEASUREMENT OF OUR CULTURE

To stay connected to the pulse of our organisation, we have created real-time dashboards that measure the extent to which our people: feel connected and aligned; have ways of working that allow for faster decision making; and experience effective leadership. By asking a short series of questions more frequently, we can generate insights that can help our leaders build a more agile, connected and constructive culture. The dashboard also reports on workplace health and safety incidents, investigation and rectification.

The feedback we obtain from our people supports our communication with them so they can deliver to our customers and our communities every day.

WORKFORCE DESIGN

Workforce design helps us to focus on having the right skills, experience and capability to deliver now and into the future. To achieve this, we use internal and external insights to anticipate the future demands for skills within our organisation, as well as considering how technology will affect the ways our customers live, how and where our people prefer to work, and future types of work. This helps us plan for accessible and flexible working practices such as extending our work from home program, which is currently experienced by more than 60% of our Australian call centre sales and service people.

Delivering on our strategic priorities of customer and simplification means that the core capabilities we need to build in our workforce include digital technology, data and analytics; these skills will need to complement our existing skills.

At the same time, we want to ensure that we have diversity in our workforce skill and experience, to reflect our customers. As well as focusing on diversity, we are emphasising the creation of a sense of belonging. We expect our leaders to create this environment for our people, and our customers. We are also working with our people to build skills for the future relevance of their careers and their ability to deliver for our customers. All our people have access to the latest online learning tools such as Lynda.com so they can build skills in a wide range of topics at times that suit them.

These initiatives will ensure we provide a work environment where our people feel empowered to bring their whole selves to work and contribute their best every day. Our approach recognises that it is our people who will ensure we achieve for our customers, communities and shareholders.

OPERATING PERFORMANCE

CONSUMER

NRMA Insurance promoted its out-of-home placements product with the line "Weather any storm with NRMA Insurance. Get Confidence by your side."

Our Consumer business is a market leader in personal lines insurance products sold to customers under the NRMA Insurance, RACV, SGIO, SGIC, CGU and WFI brands.

RESULTS

Consumer grew its gross written premium by 5.5% to $6,119 million, as a result of rate increases to address increased claims inflation, particularly in motor, and from the first year's income from our 20% share of the South Australian compulsory third party insurance scheme.

Premium growth also benefited from a modest increase in the number of motor policies written, especially in New South Wales and Victoria, as well as rate increases in New South Wales' compulsory third party insurance premiums to address higher claims. While there was a slight fall in the number of home policies, particularly in New South Wales, overall home premium growth was assisted by slightly higher average sums insured.

In a dynamic and competitive environment, the business maintained high renewal levels for both motor and home policies.

Insurance profit increased to $941 million, delivering a higher reported insurance margin of 21.8% compared to 19.8% last year. The increase reflected considerably higher prior period reserve releases; net natural peril claim costs in line with allowance, compared to an overrun against allowance in the prior year; and a favourable credit spread movement of over $30 million.

Stripping out these factors, underlying insurance margin remained strong at 13.9%. This was lower than last year's 16.0% underlying insurance margin, due to the net effect of:

- higher average claim costs, notably in motor policies, which were countered by higher rates;
- a slight drag from the stronger growth of the lower margin Satellite business (formerly the challenger business) which houses Coles Insurance, SGIO, SGIC and IAL; and
- improved profitability in the New South Wales compulsory third party insurance portfolio due to initial reform ahead of wider scheme reform which the government has listed to implement from December 2017. IAG has been actively involved in industry-wide action to address fraudulent claims in the scheme.

This year, NRMA Insurance continued to advance its digital sales and service capabilities. Improvements included: better proactive online chat and instant messaging with customers; advancements in automated cash settlement and home claim lodgement; increasing digital lodgements; and market-leading enhancements to mobile account authentication, including single-use codes and fingerprint authentication. Overall, NRMA Insurance conducted approximately 23% of new business sales and 24% of renewals online.

GROSS WRITTEN PREMIUM ($m)

2017	**6,119**
2016	5,801

INSURANCE PROFIT ($m)

2017	**941**
2016	805

PERCENTAGE OF IAG'S GROSS WRITTEN PREMIUM

52%

BUSINESS

CGU's "own it" campaign puts the brand at the heart of its small-to-medium enterprise strategy, supporting businesses by backing them with insurance products that meet their needs in ways that work for them.

Business operations contain all commercial insurance products sold in Australia under the CGU, WFI, NRMA Insurance, RACV, SGIO and SGIC brands, and niche products sold through brands such as Swann Insurance.

RESULTS

Business generated relatively flat gross written premium of $2,962 million, despite shedding almost $130 million of premium after selling the car dealership portion of Swann Insurance in August 2016. After allowing for the car dealership divestment, premium growth was over 4%.

This result reflected targeted rate increases in most classes, with increased momentum over the course of the year. Other contributing factors were the shedding of poorly performing business, notably in workers' compensation and property; strong growth from underwriting agencies; steady retention rates; and lower new business opportunities and volumes.

Business reported a lower insurance profit of $204 million, which equates to a reported insurance margin of 9.2%. This was slightly lower than the 10.0% achieved in the 2016 financial year, because of the net effect of increased large losses; a similar net natural peril claim cost; higher prior period reserve releases; and a favourable credit spread movement of $23 million.

A weaker underlying margin of 6.9% was driven by an increase in large losses in property classes compared to prior years.

In the second half of the year, IAG and Suncorp agreed to combine their similar sized marine portfolios within National Transport Insurance, Australia's leading truck insurance specialist which is equally owned by IAG and Suncorp. The move creates Australia's leading marine insurance specialist, Marine Protect: Powered by NTI.

Business has continued to improve its products, strengthen its partnerships and improve the quality of its customer service, and received industry recognition for its achievements, including:

- the Mumbrella collaboration award for CGU and its advertising and media agencies, for work in 'Seeing It Through' for Tropfest, the world's largest short film festival (July 2016);
- CGU being voted 'General Insurer of the Year' for the second year in a row in the annual National Insurance Brokers Association Insurer Survey by Brokers (September 2016); and
- the 2017 Nielsen Insurance Relationship Survey, which used a net promoter score across the Australian broker market, rated CGU above its major competitors in terms of advocacy.

During the year, CGU became a foundation sponsor of the Collingwood Football Club Women's team, and extended its Premier Partnership with Collingwood Football Club through to the end of the 2022 season.

GROSS WRITTEN PREMIUM ($m)

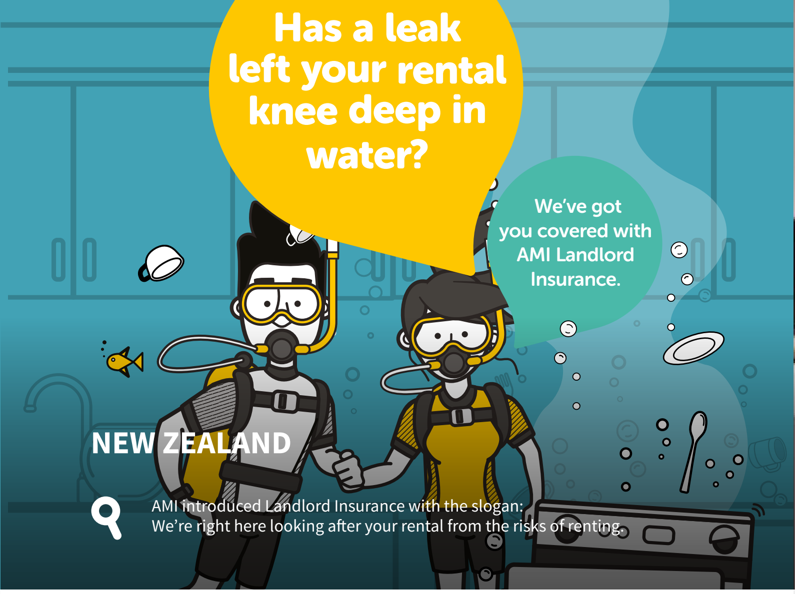
2017	**2,962**
2016	2,979

INSURANCE PROFIT ($m)

2017	**204**
2016	230

PERCENTAGE OF IAG'S GROSS WRITTEN PREMIUM

25%



NEW ZEALAND

AMI introduced Landlord Insurance with the slogan: We're right here looking after your rental from the risks of renting.

IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands.

RESULTS

The New Zealand business grew its gross written premium by 7.2% to $2,339 million. This result included a favourable foreign exchange effect; local currency premium growth was 4.3%. Growth reflected increased prices in personal policies, some volume growth in motor and a second half recovery in the price of commercial policies.

New Zealand produced an insurance profit of $125 million, compared to $135 million last year, which translated to a reported insurance margin of 7.6%. This was slightly lower than last year's 8.6% because of the net effect of:

- substantially higher net natural peril claim costs, especially from the Kaikoura earthquake in November 2016;
- higher average claim costs and frequency, particularly in personal lines and commercial motor;
- challenging market conditions in the Business Division, especially during the first half of the year;
- a continued focus on disciplined expense management; and
- the absence of the NZ$150 million increase to risk margin for the February 2011 earthquake event, as recognised last year.

The business produced another strong underlying performance, with an underlying margin of 14.8%; this was slightly lower than last year's 16.9% due to increased claim cost pressures, notably in motor.

The Consumer Division's commitment to providing positive customer experiences and products that target specific customer needs resulted in continued improvement in its net promoter score, and improved customer retention rates, for all key personal lines products.

The Business Division improved retention rates in all key commercial lines by continuing to focus on building successful partnerships, providing comprehensive insurance solutions and supporting customers to grow and be successful.

New Zealand experienced a number of significant natural disaster events during the 2017 financial year, the most notable of which was the Kaikoura earthquake. This 7.8 magnitude earthquake affected a widespread region with the majority of claims received from an area spanning Christchurch through to Wellington.

At 30 June 2017, over NZ$70 million of claim settlements for the Kaikoura earthquake had been completed, with nearly 37% of all claims by number fully settled at that date.

GROSS WRITTEN PREMIUM ($m)

2017	2,339
2016	2,182

INSURANCE PROFIT ($m)

2017	125
2016	135

PERCENTAGE OF IAG'S GROSS WRITTEN PREMIUM

20%

ASIA

Employees at our Safety operation in Thailand.

IAG has established a presence in five Asian markets: Thailand, Malaysia, India, Vietnam and Indonesia and participates in a gross annual premium pool of around $1.4 billion.

RESULTS

Our Asia business' overall profit contribution decreased to $10 million, from $26 million last year. The lower result reflects the combination of:

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

IAG's proportional share of gross written premium in Asia this year was $747 million. This reflected continued strong growth in India; lower premium in Thailand, influenced by slow new car sales, intensified competition in motor and a planned reduction of large commercial business; flat growth in Malaysia, on the back of a decline in new car sales, increased competition and lower average premiums; and an adverse foreign exchange impact. Without the currency impact, proportional gross written premium would have increased by 2.6% compared to last year.

As at 30 June 2017, IAG's investment in Asia was $807 million, with nearly 80% of this invested in Thailand and Malaysia. We expect the future development of our Asia business to be driven by:

- organic growth prospects in each market;
- superior customer and partner experiences;
- industry consolidation opportunities in Thailand and Malaysia;
- ownership dial-up opportunities when appropriate, in Malaysia and India;
- moves into adjacent business opportunities; and
- improved returns from increased scale and capability.

CONSOLIDATED GROSS WRITTEN PREMIUM ($m)

2017	366
2016	386

DIVISIONAL RESULT ($m)

2017	10
2016	26

PERCENTAGE OF IAG'S GROSS WRITTEN PREMIUM

3%

OPERATIONS

Operations is responsible for all the activities that support and drive IAG's insurance businesses, including technology, claims, procurement and supply chain.

CUSTOMER LABS

IAG executives James Orchard, EGM Innovation; Julie Batch, Chief Customer Officer; Peter Harmer, CEO; and Andrew Stead, Director Incubation, photographed at the opening of Firemark Labs in Sydney.

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

OPTIMISATION PROGRAM

IAG's optimisation program covers a number of initiatives designed to simplify our business and reduce IAG's controllable expense base by at least $250 million – or 10% pre-tax by the end of the 2019 financial year – while significantly improving productivity and our customers' experiences.

The program has three core pillars: effective partnering; core systems consolidation; and supply chain optimisation.

EFFECTIVE PARTNERING

Operations manages the operational partnering program which outsources and offshores some specific activities to global service suppliers who have superior business scale and expertise.

Activities that have been be moved to offshore partners include accounts payable and accounts receivable (Australia and New Zealand); digital classification (Australia); payroll (Australia); premium administration and credit (Australia); and digital customer support (webchat Australia). More partnering activities will be added in the 2018 financial year.

Operations has implemented an Operational Partnering Excellence framework to build organisational capability and ensure we achieve the best outcome. It is also establishing an automation centre of excellence for the Robotic Process Automation skills which are used in areas such as accounts payable.

SYSTEMS CONSOLIDATION AND SUPPLY CHAIN OPTIMISATION

This year, Operations began to consolidate and simplify IAG's core technology systems across Australia and New Zealand, including using the proven Guidewire platform. It is now moving all of IAG's claims operations onto Guidewire's ClaimCenter.

The division completed a refreshed technology strategy and roadmap that will provide end-to-end digital use across the value chain; simplify technology; and create and embed an aligned operating model across all technology areas.

It also introduced reforms to procurement and supply chain practices, including consolidating suppliers and negotiating better rates; increasing the use of preferred partners in property and motor claims; and implementing an IAG-wide procurement policy, procurement analytics and a buying portal with improved transparency of major supplier contracts.

The division has overseen the consolidation of IAG's property footprint and increased moves to flexible working practices, which are helping to reduce the amount of office space we lease.

SIMPLIFICATION

On 19 July 2017, Operations became part of Australia Division, along with the Consumer and Business divisions. The new single Australia Division simplifies IAG's operating model by centralising accountability for the customer, product, distribution and operations functions for IAG's Australian brands.

In a further step towards simplification, on 1 August 2017 we consolidated our nine Australian general insurance licences to two.

Customer Labs is responsible for developing IAG's customer experience strategy using a deep understanding of customer data and insights. Our customer understanding enables us to design product, pricing and marketing innovations. Customer Labs is also responsible for digital innovation across IAG, including identifying and harnessing disruptive technology; building digital apps and ecosystems; brand architecture; human centred design; and new business incubation and venturing.

CUSTOMER AND MARKETING

Customer Labs is building a deep understanding of our customers and their needs so it can help us create new, improved and personalised experiences in an increasingly digital world.

This year, the division defined what a world-leading customer experience would look like, and began to apply these insights to every area where we have contact with customers. It also finalised a new way of defining groups of customers and their different life needs so we can better match our brands and current and future products to their expectations.

By aligning how we measure customer data, and introducing customer training and education programs for all our people, Customer Labs is helping to build a customer-led, data-driven culture across IAG.

DATA AND ANALYTICS

Centralising our customer knowledge and data is delivering additional benefits to our core business.

Customer Labs is building on IAG's world-class pricing capability by improving the capability and efficiency of pricing approaches and models, and automating them where possible.

It developed and applied an analytics model that identifies fraudulent behaviour and helps improve response and claims effectiveness. The division is also significantly increasing our pricing sophistication by developing and deploying real-time pricing models through digital channels.

DIGITAL

Through Customer Labs, ways of working that are typically used in digital businesses are being introduced across IAG. These include lean manufacturing principles, design thinking concepts and agile and continuous delivery methods. Customer Labs is also responsible for identifying and using disruptive technology and building digital apps and ecosystems.

The division is also working with IAG's risk, regulatory affairs and security teams to enable more extensive use of cloud services, for more scalable and cost effective infrastructure.

INNOVATION AND VENTURING

Being able to innovate at scale is key to developing new products, services and business. To give innovation the greatest chance of success at IAG, Customer Labs is focused on creating the right environments, frameworks, capabilities and experimental approaches.

Innovation and venturing successes included establishing our Firemark Ventures $75 million fund, Firemark Labs incubation hub in Sydney, and Firemark Labs innovation hub in Singapore.

CREATING SHARED VALUE

At IAG, our shared value approach helps us to establish tight connections between our business objectives and our goals for the communities in which we operate. Continuous engagement with our stakeholders helps us to understand their priorities, and this in turn shapes the initiatives we pursue under our shared value framework.

The last year amplified the importance of trust in the relationships between businesses and their stakeholders, as society increasingly looks to business for long term leadership on social issues. The focus on trust reinforced the importance of staying connected to our customers and communities, so that we can co-create solutions that respond to their needs. Our shared value approach provides a framework that allows us to develop innovative solutions to social problems that address the expectations of society and provide commercial opportunity for IAG.

CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

Locally and globally, we partner with individuals, community groups and organisations to explore new ways of building social and physical resilience.

Through our leadership positions with the United Nations Environmental Programme Finance Initiative (UNEP FI), we are working to understand the many issues related to climate change and natural disasters, and develop industry-wide solutions.

Regionally, we work with the Australian Business Roundtable for Disaster Resilience & Safer Communities and Resilient New Zealand to advocate for change in public policy to build more resilient communities.

Through our *Confident Communities* program we are aiming to create 'a nation ready for anything'. As a first step, we launched *Good 'Hoods*, a national campaign helping to connect communities and build resilience.

At state and local levels, we were actively involved in the 100 Resilient Cities initiative, with IAG representatives serving on steering committees and working groups in Melbourne and Sydney.

As part of *Confident Communities*, we have been working with the communities of Blacktown in New South Wales and the Murrindindi Shire in Victoria, to create sustainable social change at a grass-roots community level.

We endorse the Sustainable Development Goals (SDGs) spearheaded by the United Nations, and acknowledge these can only be achieved if business, government and society work together.

As an insurer, we can contribute to some SDGs more than others. We start by defining our shared value and responsible business priorities based on our business strategy and shared value thinking, then use the SDGs to help us identify where we can make the greatest impact and how we can partner effectively.

Further details are available on our website (www.iag.com.au/creating-shared-value).

PROMOTING AND EMBEDDING SHARED VALUE

We are strong advocates of shared value and collaborate with like-minded organisations, such as the Shared Value Project, to contribute and leverage expertise.

Recently, we partnered with insurers Discovery and Skandia to research ways for insurers to create shared value. The research uncovered three key opportunities for insurers (as risk managers, risk carriers, and asset managers) to make a difference:
- prevent risk and dynamically reward risk reduction;
- close the protection gap for the under-served; and
- invest assets in prevention and protection systems.

This research will help businesses, government and not-for-profit organisations to think strategically about their commercial challenges, tackle some of society's biggest issues and ensure businesses contribute to sustainable development while remaining commercially viable.

We continue to embed shared value thinking into our ways of working, encouraging our people to focus on initiatives that generate both societal and commercial value. In 2016, our achievements were recognised when we won the *Corporate Organisation Leading Through Shared Value* category in the inaugural *Australian Financial Review* BOSS Shared Value Awards.

MEASURING SHARED VALUE TO FOCUS OUR EFFORTS

Our focus on measurement supports our decision making and helps us focus our resources. This year, we implemented a social impact measurement tool and are piloting a measure for shared value that tracks community impact, employee advocacy and involvement, and business impact. We still have work to do to enable us to measure social and business outcomes at scale so that we can achieve a more robust assessment of value created.

RECOGNITION FOR IAG'S SHARED VALUE AND SUSTAINABLE PRACTICES

SHARED VALUE AWARDS
Winner, Corporate organisation leading through shared value award 2016

SHARED VALUE PROJECT

DOW JONES SUSTAINABILITY INDEX
Ranked in DJSI World, Asia Pacific and Australia in 2016

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

ROBECOSAM
Received the RobecoSAM Bronze Class Distinction in 2017

ROBECOSAM Sustainability Award Bronze Class 2016

FTSE4GOOD
Ranked in FTSE4Good Index in 2017

FTSE4Good

CDP
Awarded A- Climate Score in 2016

CDP

IAG's non-financial metrics have been independently assured by Ernst & Young (EY). All IAG's non-financial metrics are reported in our Data Summary and Glossary of Terms available online in the Shared Value area of our website available at (www.iag.com.au). The EY assurance statement is also available online.

CREATING SHARED VALUE

SAFER

We are working to make safer workplaces, homes and roads for our employees, partners, customers and communities.

KEEPING OUR PEOPLE SAFE

The health, safety and wellbeing of our people are integral to delivering on our purpose, operating optimally and staying agile in a changing environment.

Our 2020 Work Health & Safety Strategy prioritises: psychological health; flexible and mobile workforce; emergency and security management; and physical health.

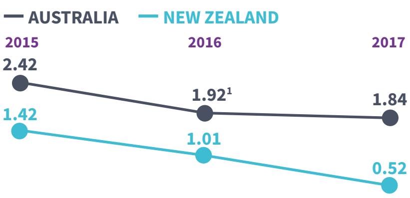
We recognise that changing work expectations and environments are increasing the levels of stress experienced by some of our employees and we are working to develop solutions to help them. We are also conscious of a link between desk-based roles and ergonomic injuries, and provide advice to help employees set up their work spaces to avoid injury.

We are aware of the need for stringent emergency management due to the rise in security events, including the risk of occupational violence. Additionally, the growing trend for flexible and mobile working means our employees are more susceptible to external risks, such as road accidents.

Our increased focus on capability, leadership and risk management is helping us to embed a culture of health and safety throughout IAG. We will leverage our Leading@IAG program to optimise ways of working, people leadership and role clarity, and our new Donesafe platform to manage health and safety risks.

We continue to use lost time injury frequency rate (LTIFR) as a performance measure, and achieved a 4% reduction in LTIFR in Australia and a 49% reduction in New Zealand over the year. Last year, we advised we were changing our focus to leading indicators such as safety culture and hazard and incident reporting. While we have not progressed as far as we would like, we are driving accountability for more active hazard identification and mitigation and are examining how to implement leading measures next year.

LOST TIME INJURY FREQUENCY RATE[1]



PROTECTING OUR VULNERABLE CUSTOMERS

We recognise many of our customers are impacted by mental health and domestic and family violence, and we are using insights from the Consumer Advisory Board to better understand how we can support vulnerable customers.

We have established a dedicated working group and provided training to team leaders, claims assessors and frontline employees to help them identify and assist vulnerable customers.

USING VIRTUAL REALITY TO CONNECT WITH CUSTOMERS ABOUT HOME SAFETY

We want to engage with our customers in innovative ways, and have been experimenting with virtual reality (VR) technology to better understand renters' and first homeowners' risks. Our First Place VR game is designed to get people thinking differently about insurance and risk in their homes. Trials in our branches in Australia and New Zealand yielded positive results – in Australia, nearly 60% of those experiencing the technology identified a hazard in their home, and of those 26% fixed a hazard. Nearly half of those who experienced First Place are very likely to recommend an IAG brand, opening up shared value opportunities through claims reduction and revenue growth.

BUILDING RESILIENCE IN FARMING COMMUNITIES

As the market leader in the agribusiness sector, insuring around 55% of farming businesses throughout Australia, we are aware of the challenges faced by farmers and rural communities. Advances in technology and a changing commercial landscape have forced the evolution of many traditional farming roles. These pressures, combined with isolation in a remote setting, mean rural workers are at greater risk of suffering from mental health concerns.

We hosted a workshop with our partners, the National Farmers' Federation and Lifeline, to explore the challenges that occur within remote communities and identify how we can support mental health and promote customer safety and resilience. While this workshop delivered useful insights, we recognise it is only a starting point in what is a complex social issue. We are committed to working with our partners to build on these beginnings.

WORKING WITH OUR PARTNERS TO MAKE COMMUNITIES SAFER

We continue to evolve the way we work with community partners so that we can bring our purpose to life.

This year we signed a 10-year collaborative partnership agreement with the Australian Red Cross to help communities build resilience. Our partnership, founded on a shared purpose, aims to help communities prepare for, respond to and recover from emergencies. Research from our first joint initiative, which observed how people think, feel and act in emergencies, is allowing us to co-design a digital emergency preparedness tool that will help people stay safe.

Our partnerships with the New South Wales and Queensland SES help communities reduce risks arising from natural disasters. Approximately 90% of people who saw our joint storm preparedness campaign reported taking preventative action, paving the way for a reduction in claims costs and business revenue growth.

INFORMING ROAD SAFETY RELATED TO EMERGING TRENDS

We have a long-standing commitment to support road safety research and initiatives. Improved road safety, through better road conditions, safer vehicles and good driver behaviour, delivers shared value by reducing claims while protecting communities. Over the last year, we have been actively involved in the road safety discussion related to emerging trends.

SAFER – OUR OBJECTIVE	OUR COMMITMENT	MEASURE	PROGRESS[2]
Make your world a safer place	Reduce our lost time injury frequency rate (LTIFR) annually **Status:** ●	Number of lost time injuries (LTIs) per one million hours worked	4%[2] reduction in Australia and 49% reduction in New Zealand in the last 12 months

[1] Data presented to reflect the LTIFR as recorded at 30 June 2017. Each year we adjust LTIFR data to reflect LTIs substantiated after the original report date. The Australian LTIFR increased from 1.73 to 1.92 for the period 1 July 2015 to 30 June 2016.

[2] Last year, we stated a 29% reduction in Australia and a 29% reduction in New Zealand in the 12 months to 30 June 2016. The year-on-year reduction in Australian LTIFR for 2016 has been adjusted to a 21% reduction.

Autonomous (self-driving) vehicles have significant potential to enhance transport, mobility and road safety. We recently entered a 10-year partnership with the iMOVE Cooperative Research Centre and look forward to shaping the future of smart mobility.

To help address the increased risk from distracted driving, we are piloting an app, Safer Journeys, which rewards good driving habits with rewards. The app has been tested with our employees and is currently being trialled by IAG customers.

IAG's Research Centre now assesses Autonomous Emergency Brake systems on passenger vehicles, and provides constructive feedback to manufacturers to improve vehicle safety

CREATING SHARED VALUE

STRONGER

When people are safer they create businesses and communities that are stronger.

DRIVING A STRONG ORGANISATIONAL CULTURE

A strong organisational culture is key to building our capacity to rapidly adapt to the changing dynamics of our customers, markets and the future of work. We believe culture is formed through the formal and informal messages our people receive about what is expected of them when they work here. In a time of ongoing organisational change, we must continue to build trust in our organisation by being authentic and transparent in the way we communicate.

We have evolved our measurement to include a bi-monthly Culture Dashboard which provides a regular measure of culture by team. We acknowledge that our culture is not where it needs to be and we are working to improve constructive styles through a focus on leadership effectiveness, providing a greater sense of role clarity and being more transparent in our communications.

Our Leading@IAG program will help us to focus less on hierarchy and more on relationships and accountability, and we hope to strengthen culture through stronger connections to each other, our customers and our communities.

OUR APPROACH TO DIVERSITY, INCLUSION & BELONGING

We believe diversity, inclusion and belonging will help us achieve our strategy and purpose. Diversity of thought opens our minds to new perspectives, while greater representation of the communities we serve supports our focus on customers. An inclusive society creates a strongly connected and safer community and workplace.

We have a commitment to increase the number of women in senior management to 40% in Australia and New Zealand, and 30% in Asia, by 2020. Currently, women hold 33.7% of senior management roles across IAG and we recognise we have work to do to achieve our goal.

Our efforts this year were assisted by our Kids@IAG school holiday program, our Celebrating Women@IAG community of support, and contributions to female advocacy organisations such as Chief Executive Women.

We believe flexible work arrangements can boost performance and remove barriers to workforce participation, and recently piloted working from home in several Australian call centre environments. We now have more than 700 customer-facing employees working flexibly.

Our focus on equity recognises that people come from different places and we might need to treat people differently to ensure they have what they need to thrive and succeed. Our commitment is supported by our Diversity Network Advisory which enables a more strategic approach to embedding diversity, and our Employee Network Resource Groups, which offer support around areas such as families, mental health, domestic and family violence and LGBTIQ+ issues.

We are continuing to work to achieve the commitments we made in our 2015 Reconciliation Action Plan. We appointed an Indigenous Engagement Partner to drive our commitment to achieve 1.5% Indigenous employees in our Australian workforce by November 2018, and four of our Indigenous CareerTrackers interns moved into permanent roles at IAG.

REPRESENTATION OF WOMEN IN THE WORKFORCE (%)

	2017	2016	2015
Total workforce	58%	59%	59%
Senior management positions	34%	32%	31%
Executive positions	17%	21%	13%
Board positions	33%	25%	33%

MALE:FEMALE SALARY RATIOS* ($) AVERAGE

	2017	2016
General employee	1.18:1	1.18:1
Manager/Senior Specialist	1.13:1	1.13:1
Senior Manager	1.09:1	1.09:1
Head of/General Manager	1.02:1	1.08:1

KEY: MALE:FEMALE

* Ratios are based on Australia and New Zealand employees only.

For our commitments, the following symbols illustrate progress: ACHIEVED SIGNIFICANT PROGRESS IN PROGRESS SOME PROGRESS

HELPING THE COMMUNITIES IN OUR REGION ADAPT AND RESPOND TO CLIMATE CHANGE

Climate change poses a significant challenge to the insurance industry and our communities, given its impact on the frequency and severity of extreme weather events that increase loss and damage; claims costs; and the affordability and accessibility of insurance.

We are using our position as Australia's and New Zealand's largest general insurer to help communities understand and manage the challenges they face from climate change. We are committed to supporting a longer term view on the risk posed by natural perils and will seek opportunities to work with governments to enhance mitigation and adaptation.

We reaffirmed our support of the Paris Agreement by refreshing our Public Policy Position on Climate Change, and we subsequently developed a new action plan for the business which will be released in the coming year.

Our in-house natural perils experts help us to understand changes in climatic conditions to signal risk responsibly, remain commercially sustainable and find new ways where we can help our customers and communities be safer and more resilient.

Recently, we launched a national mapping tool – At What Cost? – using our knowledge to promote better understanding of the social and economic costs faced by communities impacted by natural perils. We know that better planning and investment in infrastructure can reduce risk exposure and build safer, more resilient communities.

Through forums such as the Australian Business Roundtable for Disaster Resilience & Safer Communities, Resilient New Zealand and 100 Resilient Cities, we work with businesses, community organisations and government to influence change in public policy to support investment that reduces exposure and improves resilience to natural peril events.

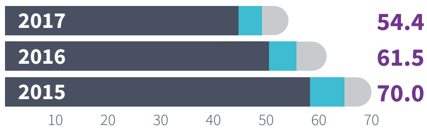
We have maintained our commitment to carbon neutrality and continue to look for opportunities to reduce our carbon footprint. Last year we set a target to reduce our Scope 1 and 2 emissions by 10% by 2020. Our commitment to achieve a 10% reduction in CO_2e by 2020 relates to Scope 1 tonnes CO_2e from tool of trade vehicle fuel and building refrigerants, and Scope 2 tonnes CO_2e from electricity. We have already reached this target, reducing in-scope emissions by 28% since 2015 (our baseline year), and we are working on a revised target which we will release in the 2018 financial year.

Our long term challenge is to help customers and partners in our value chain minimise their environmental impacts, and we will focus on this in our updated action plan.

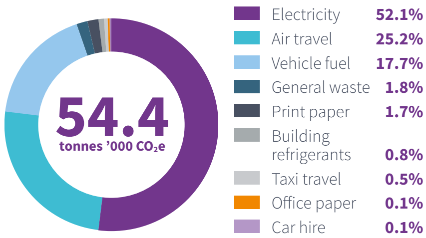
SUPPORTING AGRIBUSINESS RESILIENCE

We recognise the importance of farm productivity and economic stability in rural communities and the impact that volatile climatic conditions are having on crop production. In partnership with Landmark, we are piloting multi-peril Crop Income Protection cover to help protect farmers against a reduction in yield caused by events such as flood, frost and drought.

EMISSIONS PROFILE (tonnes '000 CO_2e)



EMISSIONS PROFILE BY SOURCE (% CO_2e)



For a breakdown of IAG's emissions profile by region and scope, see our Carbon Neutral Disclosure on our website.

STRONGER – OUR OBJECTIVE	OUR COMMITMENT	MEASURE	PROGRESS
Realising the benefits of a diverse and inclusive workforce	Increase the number of women in senior management to 40% in Australia and New Zealand, and 30% in Asia, by 2020 **Status:**	% women in senior management	33.7% women in senior management roles across IAG (up from 32% in 2016) • Australia – 34.6% • New Zealand – 37.8% • Asia – 22.9%
	Increase Aboriginal and Torres Strait Islander employment to represent 1.5% (approximately 130 employees) of the Australian workforce by November 2018 **Status:**	Number of Aboriginal and Torres Strait Islander employees	Current focus on measurement and understanding our baseline for the diversity of our workforce, which includes number of Indigenous employees Established strategic partnership with an Indigenous recruitment supplier
Continuous improvement in environmental performance	10% reduction in Scope 1 and 2[1] CO_2e by 2020 (2015 baseline) **Status:**	Tonnes CO_2e	28% reduction in Scope 1 and 2[1] CO_2e since 2015
	Maintain carbon neutrality commitment **Status:**	Carbon neutral status	Retired carbon offsets to achieve carbon neutrality
Demonstrating leadership through our sphere of influence	Develop and implement an IAG Procurement Policy and Supplier Management Framework **Status:** Work with our supply chain and partners to minimise environmental impacts and enhance social outcomes/resilience **Status:**	Active and effective IAG Procurement Policy and Supplier Management Framework	Implemented IAG Procurement Policy which includes purchasing principle related to social and environmental sustainability Supplier Management Framework developed and being piloted 38% (11/29) exclusive repairers accredited to EcoSmash platinum (40% (8/20) in FY16)
	Increase the number of Aboriginal and Torres Strait Islander Supply Nation suppliers used across IAG to 12 by December 2018 **Status:**	Number of Aboriginal and Torres Strait Islander suppliers	Twelve Aboriginal and Torres Strait Islander suppliers have been engaged, ranging from one-off purchases (events) to ongoing relationships

[1] Scope 1 and Scope 2 tonnes CO2e from electricity, vehicle fuel from tool of trade vehicles and building refrigerants.

CREATING SHARED VALUE

MORE CONFIDENT

When people are covered by insurance and communities are resilient and well connected, they have the certainty and confidence to prosper.

SUPPORTING ACCESS AND AFFORDABILITY FOR YOUNGER CUSTOMERS

We are committed to making our products and services more accessible and affordable and we have developed new products to target groups who may not consider insurance.

Our AMI Renters' Insurance targets younger customers in New Zealand who do not always understand contents insurance, and may consider it too expensive, too confusing or just too hard. By highlighting a price point of no more than NZ$26 per month for NZ$10,000 of cover on AMI Advanced Contents, we are helping make insurance an easier decision. Being upfront with price removes one of the barriers to buying insurance and enables great conversations with customers – setting us up for a long term relationship.

We also continue to cover more drivers under 25 through AMI Young Drivers' Insurance, with the number of policies taken out by this segment increasing by 39% this year.

INDIGENOUS INSURANCE PROJECT

Aboriginal-owned small-to-medium enterprises and community organisations are growing fast, with the combined income of the top 500 Aboriginal-owned corporations up 8.2% from last year to $1.9 billion. To better understand and meet the needs of Indigenous people and businesses, we are using a human centred design approach to develop an Indigenous insurance brand, providing a commercial opportunity that enhances business and social resilience.

WORKING TOGETHER TO CREATE *A NATION READY FOR ANYTHING*

This year, we launched the *Confident Communities* program, a shared value initiative to drive social and commercial benefits. By helping communities become more connected and resilient, and through new products and services, we aim to reduce the impact of events no matter how large or small, which helps society and can also reduce claim costs.

We asked over 2,500 people to tell us the most important issue IAG should focus on. They told us that people were feeling a breakdown of community and did not feel as connected as they would like to be, and this has affected their resilience to life's unknowns – many of which are insurance related events.

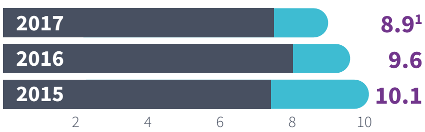
To better understand the issue and what role we could play in addressing it, we held a discovery tour with 200 resilience experts across Australia. Throughout the tour we met inspiring people and discussed proven resilience building activity. Together with this network of passionate resilience experts, we believe we can all play a role in creating 'a nation ready for anything'.

We know resilience is something that grows over time, so we launched *Good 'Hoods* – our first *Confident Communities* initiative to help connect people who want to work together to create more resilient communities.

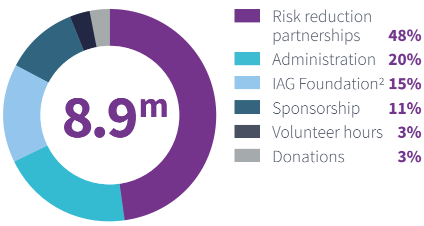
We realise that to create systemic change at the local level, we require a long-term community-led approach. So we set out to work with a small number of communities across Australia and New Zealand. Using a human centred design and co-creation approach, we are collaborating to complement their existing programs, build resilience and provide opportunities for new partnerships, products and services.

This has not always been easy and we have learnt it takes time. Initial plans to work with five communities across Australia and New Zealand have been scaled back to two in the first year – the communities of Blacktown in New South Wales and Murrindindi Shire in Victoria. We will apply what we learn through this process as we look to expand the program to further communities in the coming year.

COMMUNITY INVESTMENT TOTAL ($M)



COMMUNITY INVESTMENT BY TYPE



Over summer we encouraged people to say that first hello by hosting a *Good 'Hoods* Street BBQ; over 1,800 people participated and on average they doubled the number of people they knew in their 'hood. Learn more at: www.goodhoods.com.au

MORE CONFIDENT – OUR OBJECTIVE	OUR COMMITMENT	MEASURE	PROGRESS
Enhance resilience and social inclusion through our products, services and solutions	Leverage customer insights, agile methods and a data-driven approach to develop and test solutions that respond to evolving customer needs, and help enhance resilience and social inclusion **Status:** ◐	Number of products, services or innovative solutions launched	Continued the Consumer Advisory Board with the goal of improving customer service and consumer protection Continued to target younger customers through AMI Young Drivers' Insurance and AMI Renters' Insurance Launched Poncho insurance, a motor and contents combined product where customers can build their own policy based on their needs Safer Journeys app tested with employees and customers in Australia DipStik flood monitoring technology tested in 18 locations in Australia Travel insurance policies for NRMA Insurance, SGIO and SGIC reviewed to ensure that mental health conditions are removed from general exclusions

[1] 2017 data reflects a reduction in community investment as we continue to align our investment to our purpose and shared value objectives.
[2] This reflects the contribution by the business to the IAG Foundation, and includes matched funding for employee workplace giving.

REMUNERATION APPROACH

IAG's remuneration approach is designed to align the interests of shareholders and Executives as well as to encourage sustainable, superior performance.

The alignment between the short term performance of the Group and the reward of Executives has been strengthened.

In August 2016, the People and Remuneration Committee (PARC) and the Board reviewed IAG's short term performance goals for the Managing Director and Chief Executive Officer (Group CEO) and the Executive Team, and the way performance against these goals translates into Short Term Incentive (STI) outcomes. Previously, the STI of the Executive Team was determined with reference to individual balanced scorecards that were tied to the performance of the division each Executive managed. For the year ended 30 June 2017, the STI of the Group CEO and each member of the Executive Team has been measured against the Group Balanced Scorecard, which drives collective accountability for the performance of the Group under the concept of "One IAG". STI awards for the year ended 30 June 2017 have been calculated with reference to the Group Balanced Scorecard outcome, with the Board able to exercise discretion up or down from this outcome to reflect the Executive's contribution to the Group's performance. Other significant changes to the Group Balanced Scorecard include:

- highlighting the importance of the Group's financial performance in determining STI outcomes by increasing the weighting of financial measures in the Group Balanced Scorecard to comprise 60% of all goals;
- introducing a net promoter score as the customer measure for the Group Balanced Scorecard. This reflects IAG's strategic focus on delivering world class customer experiences; and
- simplifying the Group Balanced Scorecard by reducing the number of measures.

PARC considers that IAG's executive reward framework supports the creation of sustainable financial performance.

To focus Executives on achieving sustainable, long term performance, Executives are provided with Long Term Incentive (LTI) awards in the form of performance rights. The LTI requires Executives to meet challenging long term financial performance targets based on cash Return on Equity and relative Total Shareholder Return. Vesting of the LTI only occurs if the Group exceeds its long term performance targets and delivers superior financial performance over a three-year period for the cash Return on Equity hurdle, and four years in the case of the relative Total Shareholder Return hurdle.

As foreshadowed in the 2016 remuneration report, a review of the cash Return on Equity hurdle was completed during the 2017 financial year. The outcome of this review was that cash Return on Equity was confirmed for this year as an important strategic measure.

The remuneration outcomes presented in the 2017 remuneration report demonstrate a strong link between value created for IAG's shareholders and reward for its Executives.

To attract and retain Executive talent, IAG provides competitive fixed pay. IAG has taken a conservative approach to fixed pay increases, with increases awarded where Executives are below the market for equivalent roles, or where there has been an increase in responsibilities. For the year ended 30 June 2017, fixed pay was held constant for the majority of IAG's Executives, with only four out of the 13 Executives receiving increases due to changes in role or to reflect market pay levels. For the remuneration review conducted in August 2017, two out of 12 Executives will receive a fixed pay increase.

In the 2017 financial year, IAG's business performance was sound. After allowing for divestments and new market entry, the business maintained a stable market position and generated a sound underlying performance despite industry wide claim cost pressures. A strong capital position was maintained, while shareholder returns were improved through active capital management. Reflecting this performance, the Group Balanced Scorecard outcome was 67% of the maximum achievable. The Board determined to cap STI payments to Executives at the Group Balanced Scorecard outcome and in some cases exercised downward discretion. The average STI payment for the Group CEO and the Executive Team was 64% of the maximum achievable.

Based on multiple years of strong returns, the cash Return on Equity hurdle for the three-year period up to 30 June 2016 vested in full. The Board actively considers the performance tests of the LTI to ensure that the outcome appropriately rewards management for the value created for shareholders and has due regard for risk and compliance. The Board determined that software impairments announced to the market on 19 August 2016 would be included in the calculation when determining the cash Return on Equity vesting outcome.

On 30 September 2016, the relative Total Shareholder Return hurdle of the LTI grant awarded in the year ended 30 June 2013 was tested for the second time. Following this retest, IAG's Total Shareholder Return was ranked at the 53rd percentile of its peer group, resulting in an overall vesting outcome of 56%. This result translated to an additional 2% vesting above the 54% that had already vested following the original test on 30 September 2015. This was the last LTI grant issued with a retesting provision, with the final retest for this grant to be performed on 30 September 2017.

PARC maintains a strong governance focus to ensure remuneration outcomes support the long term financial soundness of the Group.

The Board conducted a review of IAG's remuneration policy to ensure it reflects sound governance practices that reinforce the financial soundness of IAG and encourages behaviour that supports its risk management framework.

In addition, a more comprehensive review of IAG's remuneration structure is underway.

IAG considers it is important to align the interests of Non-Executive Directors and Executives with those of shareholders. To support this alignment, Non-Executive Directors and Executives are required to hold a significant number of IAG shares with a period allowed to acquire those shares. Non-Executive Directors who had served at least three years and Executives who had served at least four years as at 30 June 2017 were tested at this date and all met this requirement.

As part of the Board's role in providing sound governance for IAG's remuneration programs, the Board conducted an assessment to determine if any reduction of unvested or unexercised equity grants was required. The Board is satisfied that no adjustment was necessary.

For employees whose primary role is risk and financial control, including the Chief Risk Officer and the Chief Financial Officer, the Board maintains oversight of their remuneration to ensure the independence of their functions and its alignment with IAG's risk management framework.

The information shown on pages 20 and 21 is an extract from the 2017 remuneration report, which appears on pages 16-37 of the 2017 annual report.

EXECUTIVE AND DIRECTOR REMUNERATION

Details of the remuneration received by Executives during the 2017 and 2016 financial years are set out below. The table provides fixed pay and other benefits paid, and the value of prior years' deferred STI and LTI awards that vested during the financial years. For remuneration details provided in accordance with the Accounting Standards, refer to Table 14 in Appendix 1 – Statutory remuneration disclosure requirements; this table appears on page 31 of the 2017 annual report.

EXECUTIVES	FINANCIAL YEAR	FIXED PAY[1]	OTHER BENEFITS AND LEAVE ACCRUALS[2]	TERMINATION BENEFITS[3]	CASH STI[4]	DEFERRED STI VESTED[5]	LTI VESTED[6]	TOTAL ACTUAL REMUNERATION RECEIVED
		$000	$000	$000	$000	$000	$000	$000
Peter Harmer	2017	1,700	17	–	1,139	288	697	3,841
	2016	1,460	70	–	905	311	1,428	4,174
Julie Batch	2017	662	(11)	–	353	110	111	1,225
	2016	343	34	–	153	–	–	530
Chris Bertuch	2017	700	(4)	–	375	129	127	1,327
	2016	400	33	–	138	–	–	571
Ben Bessell	2017	700	33	–	308	82	91	1,214
	2016	686	31	–	271	83	161	1,232
Duncan Brain	2017	943	341	–	508	217	620	2,629
	2016	934	261	–	532	154	273	2,154
David Harrington	2017	600	3	–	322	112	125	1,162
	2016	346	33	–	160	–	–	539
Nick Hawkins	2017	1,173	25	–	643	327	697	2,865
	2016	1,026	(48)	–	593	318	1,428	3,317
Jacki Johnson[7]	2017	1,091	(40)	–	524	240	644	2,459
	2016	1,053	92	–	585	252	1,286	3,268
Anthony Justice	2017	690	(6)	–	375	71	–	1,130
	2016	372	(6)	–	156	–	–	522
Mark Milliner	2017	1,000	22	–	536	–	–	1,558
	2016	181	20	–	–	–	–	201
Craig Olsen[8]	2017	711	33	–	381	74	79	1,278
	2016	330	36	–	124	–	–	490
Clayton Whipp	2017	775	11	–	310	153	127	1,376
	2016	784	64	–	415	117	243	1,623
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Claire Rawlins[9]	2017	250	(15)	600	126	–	–	961
	2016	341	32	–	152	–	–	525

1 Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of the Group's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with AASB 119 Employee Benefits.
2 This column includes annual and mid-service leave accruals, 30% tax rebate on car allowances for certain key management personnel who have salary sacrifice arrangements on cars and other short term employment benefits as agreed and provided under specific conditions. Other benefits provided under specific conditions for key management personnel are provided as follows: Duncan Brain: accommodation allowances, airfares for home visits and medical insurance; and Craig Olsen: salary continuance insurance.
3 Payment in lieu of notice, which incorporates statutory notice and severance entitlements.
4 Cash STI earned within the year ended 30 June 2017 and to be paid in September 2017.
5 The deferred STI vesting on 1 September 2016 was valued using the five day weighted average share price $5.60 (1 September 2015: $5.14).
6 The LTI vested was valued using the five day weighted average share price at vesting date which was $5.90 for awards vested on 22 August 2016 and $5.46 for awards vested on 30 September 2016 (24 August 2015: $5.50 and 30 September 2015: $4.84).
7 Remuneration for Jacki Johnson was determined in New Zealand dollars (NZ$) and reported in Australian dollars (A$) for the period between 1 July 2015 and 31 December 2015 using the average exchange rate for the year ended 30 June 2016, which was 1 NZ$ = 0.91957 A$.
8 Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2017 which was 1 NZ$ = 0.94497 A$.
9 Claire Rawlins was a KMP for the period up to 7 December 2016. Claire Rawlins received a payment in lieu of notice of $600,000, equivalent to 12 months' fixed pay, under the terms of her contract upon her termination.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Details of total remuneration for Non-Executive Directors for the year ended 30 June 2017 are set out below:

		SHORT TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS					
INDEPENDENT NON-EXECUTIVE DIRECTORS	FINANCIAL YEAR	IAG BOARD FEES RECEIVED AS CASH	OTHER BOARDS AND COMMITTEE FEES	SUPER-ANNUATION	RETIRE-MENT BENEFITS	OTHER LONG TERM EMPLOY-MENT BENEFITS	TERMIN-ATION BENEFITS	SHARE-BASED PAYMENT	TOTAL
		$000	$000	$000	$000	$000	$000	$000	$000
Elizabeth Bryan	2017	474	226	19	–	–	–	97	816
	2016	276	111	19	–	–	–	–	406
Duncan Boyle[1]	2017	92	18	10	–	–	–	–	120
Alison Deans	2017	149	32	20	–	–	–	24	225
	2016	172	28	19	–	–	–	–	219
Hugh Fletcher	2017	176	187	21	–	–	–	–	384
	2016	172	184	21	–	–	–	–	377
Jonathan Nicholson	2017	177	46	20	–	–	–	–	243
	2016	145	36	14	–	–	–	–	195
Helen Nugent[1]	2017	69	26	11	–	–	–	24	130
Thomas Pockett	2017	180	68	19	–	–	–	–	267
	2016	177	78	19	–	–	–	–	274
Philip Twyman	2017	180	70	19	–	–	–	–	269
	2016	177	82	19	–	–	–	–	278
NON-EXECUTIVE DIRECTORS WHO CEASED AS KEY MANAGEMENT PERSONNEL									
Raymond Lim	2017	113	14	12	–	–	–	–	139
	2016	172	23	19	–	–	–	–	214

1 Non-Executive Directors appointed part way through the year ended 30 June 2017.

BOARD OF DIRECTORS

The composition, structure and conduct of IAG's Board are governed by IAG's Constitution, the Corporations Act, Prudential Standards made under the Insurance Act, the Australian Securities Exchange's Listing Rules and general law.

The Board also oversees our compliance with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd edition). Details of our compliance with the individual principles are set out in our 2017 Corporate Governance Statement, which is available online in the About Us area of our website (www.iag.com.au).

To assist it in fulfilling its responsibilities, the Board has four standing committees:

- the **Audit Committee** helps the Board fulfil its statutory and fiduciary responsibilities by monitoring the integrity of external and internal financial reporting, including compliance with applicable laws and regulations. This committee ensures that directors and management are provided with high quality financial and non-financial information, and is responsible for monitoring the independence of the auditor;
- the **Nomination Committee** employs appropriate processes to address Board succession issues, and appoints directors who allow the Board to have the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively;
- the **People and Remuneration Committee** provides assurance to the Board on the effectiveness and integrity of, and compliance with, IAG's remuneration policies and practices, and monitors the development, implementation and reporting of IAG's business sustainability strategy; and
- the **Risk Committee** helps the Board exercise due care, skill and diligence regarding effective oversight of material risks to which IAG is exposed by providing oversight of IAG's risk management and governance frameworks.

Detailed information about our Directors, our Board and our Board Committees is available in the About Us area of our website (www.iag.com.au).

ELIZABETH BRYAN AM BA (Econ), MA (Econ)

Chairman and Independent Non-Executive Director
Appointed December 2014
Appointed Chairman March 2016
Chairman Nomination Committee
Chairman Insurance Manufacturers of Australia Pty Limited
Age 70

PETER HARMER

Managing Director and Chief Executive Officer
Executive Director
Appointed Managing Director and Chief Executive Officer November 2015
Member Nomination Committee
Age 56

DUNCAN BOYLE BA (Hons), FCII, FAICD

Independent Non-Executive Director
Appointed December 2016
Member Audit Committee, Risk Committee and Nomination Committee
Age 65

ALISON DEANS BA, MBA, GAICD

Independent Non-Executive Director
Appointed February 2013
Member Audit Committee, People and Remuneration Committee and Nomination Committee
Age 49

HUGH FLETCHER BSc/BCom, MCom (Hons), MBA

Independent Non-Executive Director
Appointed September 2007
Member Risk Committee, People and Remuneration Committee and Nomination Committee
Age 69

JONATHAN (JON) NICHOLSON BA

Independent Non-Executive Director
Appointed September 2015
Member Risk Committee, People and Remuneration Committee and Nomination Committee
Age 61

DR HELEN NUGENT AO BA (Hons), PhD, MBA, HonDBus

Independent Non-Executive Director
Appointed December 2016
Chairman People and Remuneration Committee
Member Audit Committee and Nomination Committee
Age 68

TOM POCKETT BCom, CA

Independent Non-Executive Director
Appointed 1 January 2015
Chairman Audit Committee
Member Risk Committee and Nomination Committee
Age 59

PHILIP TWYMAN AM BSc, MBA, FAICD

Independent Non-Executive Director
Appointed July 2008
Chairman Risk Committee
Member Audit Committee and Nomination Committee
Age 73

GROUP LEADERSHIP TEAM

IAG's Group Leadership Team supports our core businesses and our focus on our strategic priorities of customer, simplification and people.

The Group Leadership Team is headed by our Managing Director and Chief Executive Officer, **Peter Harmer**. Detailed information about the members of our Group Leadership Team is available in the About Us area of our website (www.iag.com.au).

Peter Harmer
Managing Director and Chief Executive Officer

Julie Batch MApp Fin, ANZIIF (Fellow)
Chief Customer Officer

CHRIS BERTUCH BEc, LLB, LLM
Group General Counsel & Company Secretary

BEN BESSELL
Executive General Manager Distribution, Group Executive

DUNCAN BRAIN BApp Sc (Maths), MBA
Chief Executive, Asia

DAVID HARRINGTON BCom, LLB, MBA, GCertAppFin
Group Executive, Office of the CEO

NICK HAWKINS BCom, FCA
Chief Financial Officer

JACKI JOHNSON BApp Sc (OT), GDipSafSc, EMBA, FAICD
Group Executive, People, Performance & Reputation

MARK MILLINER BCom, MBA, GAICD
CEO Australia

CRAIG OLSEN BA Acc
Chief Executive, New Zealand

CLAYTON WHIPP BBus, FCA, GAICD
Chief Risk Officer

FIVE YEAR FINANCIAL SUMMARY

	2017 $m	2016 $m	2015 $m	2014 $m	2013 $m
Gross written premium	11,805	11,367	11,440	9,779	9,498
Gross earned premium	11,692	11,411	11,525	9,721	9,135
Outwards reinsurance premium expense	(3,227)	(3,183)	(1,196)	(1,077)	(817)
Net premium revenue	8,465	8,228	10,329	8,644	8,318
Net claims expense	(5,263)	(5,397)	(6,941)	(5,201)	(4,982)
Underwriting expenses	(2,185)	(2,116)	(2,847)	(2,303)	(2,178)
Underwriting profit[a]	1,017	715	541	1,140	1,158
Net investment income on assets backing insurance liabilities	241	463	562	439	270
Management reported insurance profit[a]	1,258	1,178	1,103	1,579	1,428
Net investment income from shareholders' funds	249	97	223	396	347
Other income	182	204	187	199	175
Share of net profit/(loss) of associates[b]	19	17	6	(8)	(29)
Finance costs	(93)	(99)	(107)	(98)	(95)
Corporate and administration expenses[c]	(224)	(423)	(383)	(255)	(208)
Amortisation expense and impairment charges of acquired intangible assets and goodwill	(57)	(54)	(80)	(11)	(25)
Profit before income tax	1,334	920	949	1,802	1,593
Income tax expense	(329)	(218)	(119)	(472)	(424)
Profit after tax from continuing operations	1,005	702	830	1,330	1,169
Loss after tax from discontinued operation	–	–	–	–	(287)
Net profit attributable to non-controlling interests	(76)	(77)	(102)	(97)	(106)
Net profit attributable to IAG shareholders	929	625	728	1,233	776
Ordinary shareholders' equity ($ million)	6,562	6,563	6,817	6,568	4,786
Total assets ($ million)[d]	29,597	30,030	31,402	29,748	24,859
KEY RATIOS					
Gross written premium growth	3.9%	(0.6)%	17.0%	3.0%	11.8%
Loss ratio[e]	62.2%	65.6%	67.2%	60.2%	59.9%
Expense ratio[f]	25.8%	25.7%	27.6%	26.7%	26.2%
Combined ratio[g]	88.0%	91.3%	94.8%	86.9%	86.1%
Insurance margin[h]	14.9%	14.3%	10.7%	18.3%	17.2%
SHARE INFORMATION					
Dividends per ordinary share – fully franked (cents)	33.00	36.00	29.00	39.00	36.00
Basic earnings per ordinary share (cents)	39.03	25.79	31.22	56.09	37.57
Diluted earnings per ordinary share (cents)	37.72	25.34	30.45	53.62	36.44
Ordinary share price at 30 June ($) (ASX: IAG)	6.78	5.45	5.58	5.84	5.44
Convertible preference share price at 30 June ($) (ASX: IAGPC)	–	101.50	101.60	106.44	101.88
Capital notes price at 30 June ($) (ASX: IAGPD)	106.53	–	–	–	–
Reset exchangeable securities price at 30 June ($) (ASX: IANG)	103.40	100.00	103.10	107.00	102.80
Issued ordinary shares (million)	2,367	2,431	2,431	2,341	2,079
Issued convertible preference shares (million)	–	4	4	4	4
Issued capital notes (million)	4	–	–	–	–
Market capitalisation (ordinary shares) at 30 June ($ million)	16,048	13,249	13,565	13,671	11,310
Net tangible asset backing per ordinary share ($)[d]	1.36	1.30	1.34	1.27	1.38

[a] The amounts for 2016 financial year are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure. A reconciliation between the two is outlined in the Operating and Financial Review section of the 2017 annual report.
[b] Share of net profit/(loss) of associates includes regional support and development costs.
[c] Includes a $198 million impairment of capitalised software for 2016 and a $60 million impairment of the investment in Bohai Insurance for 2015.
[d] The financial information for 2014 has been restated to reflect the fair value adjustments to the net assets acquired in respect of the former Wesfarmers business in 2014.
[e] The loss ratio refers to the net claims expense as a percentage of net premium revenue.
[f] The expense ratio refers to underwriting expenses as a percentage of net premium revenue.
[g] The combined ratio refers to the sum of the loss ratio and expense ratio.
[h] Insurance margin is a ratio of insurance profit over net premium revenue.

SHAREHOLDER INFORMATION

KEY DATES

2017 financial year end	30 June 2017
Full year results and dividend announcement	23 August 2017
Notice of meeting mailed to shareholders	5 September 2017
Final dividend for ordinary shares Record date Payment date	 7 September 2017 9 October 2017
Annual general meeting	20 October 2017
Half year end	31 December 2017
Half year results and dividend announcement	14 February 2018*
Interim dividend for ordinary shares Record date Payment date	 21 February 2018* 29 March 2018*
2018 financial year end	30 June 2018
Full year results and dividend announcement	15 August 2018*

* Please note: dates are subject to change. Any changes will be published via a notice to the Australian Securities Exchange (ASX).

2017 ANNUAL REPORT SUITE

This **annual review** contains a summary of the 2017 financial year performance of Insurance Australia Group Limited (IAG or the Group). Unless otherwise indicated, references to 2017, 2016 and 2015 in graphs and copy throughout this review refer to IAG's financial years ended 30 June 2017, 2016 and 2015 respectively. All figures are in Australian dollars unless otherwise stated.

Information about IAG's **2017 financial performance** is available in the 2017 reporting centre on our website (www.iag.com.au). Scan the QR code on the back cover to go straight to IAG's website, for financial updates, investor reports, ASX announcements, key dates and a comprehensive shareholder centre.

Our 2017 **annual report** contains more detailed financial information, including full statutory accounts, and the Directors' and remuneration reports for the 2017 financial year. This year's corporate governance report is available in the About Us area of our website (www.iag.com.au). To have a copy of the annual review or annual report mailed to you, contact IAG's Share Registry using the contact details on the back page.

SCOPE AND ASSURANCE OF SUSTAINABILITY REPORTING

Page 9 and pages 15-19 of this annual review provide an outline of our shared value and sustainability performance during the year ended 30 June 2017.

Ernst & Young (EY) was engaged by IAG to undertake limited assurance over selected disclosures in the Creating Shared Value section of IAG's 2017 Annual Review and Sustainability Report, and associated online content. The subject matter for EY's limited assurance engagement for the year ended 30 June 2017 for Australia, New Zealand, and Asia was limited to:

- all customer, community, workforce, and environmental quantitative indicators contained in the 'Creating Shared Value' online content (www.iag.com.au/shared-value/our-performance); and
- the consolidated metrics presented throughout the 'Creating Shared Value section of IAG's 2017 Annual review and Sustainability Report.

EY'S CONCLUSION STATEMENT

Based on the limited assurance procedures conducted, nothing has come to our attention that causes us to believe that, for the year ended 30 June 2017, selected disclosures in IAG's Creating Shared Value section of its 2017 Annual Review and Sustainability Report have not been reported and presented fairly, in all material respects, in accordance with IAG's criteria for reporting.

EY's independent Limited Assurance Statement to the Board and Management of Insurance Australia Group Limited is available in the Shared Value area of our website.

GLOSSARY

APRA is the Australian Prudential Regulation Authority.

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.

Gross written premium is the total amount of insurance premiums that we receive from customers.

Insurance margin represents our insurance profit as a percentage of our net earned premium.

Insurance profit is our underwriting result plus the investment income on assets backing our technical reserves.

Long tail classes of insurance are those such as compulsory third party and workers' compensation where the average period is generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.

Net earned premium (NEP) is gross earned premium less reinsurance expense.

Net profit after tax is our net result, after allowing for income taxes and the share of profit owing to non-controlling interests.

Risks in force refers to the subject matter that an insurance policy or contract protects (eg 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 is a measure of the total number of risks covered by an insurance company at a point in time.

Shareholders' funds is the investment portfolio of assets we hold in excess of the amount backing technical reserves; it represents shareholders' equity not used in day-to-day operations.

Short tail classes of insurance (such as motor, home and small-to-medium enterprise commercial) are those with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.

Technical reserves are the investments we hold to back the outstanding claims liability and unearned premium, net of recoveries and premium debtors.

Underlying insurance margin is defined by IAG as the 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.

iag

SHARE REGISTRY

Computershare Investor Services Pty Limited
GPO Box 4709, Melbourne VIC 3001 Australia

Hand deliveries:
Level 4, 60 Carrington Street
Sydney NSW 2000 Australia

Telephone:
(within Australia) 1300 360 688 or
(outside Australia) +61 (0)3 9415 4210

Other:
Email iag@computershare.com.au
Facsimile (general) +61 (0)3 9473 2470

REGISTERED OFFICE

Insurance Australia Group Limited
Level 26, 388 George Street
Sydney NSW 2000 Australia

Telephone +61 (0)2 9292 9222
Email investor.relations@iag.com.au
Facsimile +61 (0)2 9292 8072
Website www.iag.com.au

ONLINE INFORMATION

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

AUSTRALIA

THAILAND

NEW ZEALAND

VIETNAM

MALAYSIA

INDONESIA

INDIA

100% owned unless marked with a footnote

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 owned 70% by IAG and 30% by RACV.

2 IAG owns 100% of WFI Insurance Limited (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 owns 63.17% of AAA Assurance Corporation, based in Vietnam.

4 IAG holds a 98.61% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.

5 IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

6 IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.

7 IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.

All ownership percentages are as at 30 June 2017.

PEFC
PEFC/21-31-119

Pacesetter Laser Recycled is 30% recycled and made up from elemental chlorine free bleached pulp which is PEFC™ certified sourced from sustainably managed sources. It is manufactured by an ISO 14001 certified mill.