

IAG FINANCE (NEW ZEALAND) LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018
APPENDIX 4D (ASX Listing Rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

			31 December 2018 \$000	31 December 2017 \$000
	UP / DOWN	% CHANGE		
Revenue from ordinary activities	Up	2.3 %	12,356	12,073
Profit from ordinary activities after tax attributable to shareholders	Up	13.9 %	278	244
Net profit attributable to shareholders	Up	13.9 %	278	244

RESET EXCHANGEABLE SECURITIES (RES)	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
17 September 2018 payment	\$1.0923	\$1.0923
17 December 2018 payment	\$1.0338	\$1.0338

The next quarterly interest payment, which is expected to be \$1.0160 per RES (4.2140% per annum), is due for payment on 15 March 2019. This interest payment is expected to be fully franked.

Additional Appendix 4D disclosure requirements can be found in the half year financial report of IAG Finance (New Zealand) Limited for the period ended 31 December 2018 (Attachment A). This report is to be read in conjunction with the annual report of IAG Finance (New Zealand) Limited for the year ended 30 June 2018 and any public announcements made by IAG Finance (New Zealand) Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

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

ATTACHMENT A

IAG FINANCE (NEW ZEALAND) LIMITED

HALF YEAR FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018

IAG FINANCE (NEW ZEALAND) LIMITED

ABN 97 111 268 243

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

IAG FINANCE (NEW ZEALAND) LIMITED
TABLE OF CONTENTS

Directors' report **1**

Lead auditor's independence declaration **3**

Financial statements..... **4**

Directors' declaration **9**

Independent auditor's review report **10**

DIRECTORS' REPORT

The Directors present their report together with the financial report of IAG Finance (New Zealand) Limited (Company) for the half year ended 31 December 2018 and the Auditor's Report.

DIRECTORS OF IAG FINANCE (NEW ZEALAND) LIMITED

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

INDEPENDENT NON-EXECUTIVE

Elizabeth B Bryan AM (Chairman)

Hugh A Fletcher

EXECUTIVE

Peter G Harmer

Nicholas B Hawkins

PRINCIPAL ACTIVITY

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

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

The net result of the Company after applicable income tax for the half year ended 31 December 2018 was a profit of \$278,000 (31 December 2017: \$244,000).

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

PAYMENT DATE	AMOUNT PER RES	INTEREST RATE
17 September 2018	\$1.0923	4.2414% per annum
17 December 2018	\$1.0338	4.1464% per annum

REVIEW OF FINANCIAL CONDITION

The total assets of the Company, which at 31 December 2018 were \$551,624,000 (30 June 2018: \$551,563,000), relate predominantly to a loan to a related body corporate, a wholly-owned subsidiary of IAG. The loan is attributable solely to the RES, valued at a face value of \$550,000,000 and accrued interest for the financial period. Refer to Note 2.2 for further details.

The total liabilities of the Company, which at 31 December 2018 were \$551,272,000 (30 June 2018: \$551,289,000), relate mainly to the issued RES and accrued interest payable to external investors.

STRATEGY AND RISK MANAGEMENT

A. STRATEGIC PRIORITIES

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

B. RISK MANAGEMENT

The Company forms part of the IAG Group and adopts IAG's Risk Management Strategy (RMS).

Managing risk is an integral part of delivering the Company's strategy, decision making and sustainability. The IAG risk management framework is a core part of the governance structure, and includes internal policies, key risk management processes and culture. The RMS details the IAG principles, risk appetite, policies, key controls, and monitoring and governance processes for managing key risk. The IAG Risk Committee oversees the Company's risk management framework as part of its oversight of IAG. Further details about IAG's policies on risk oversight and management are available on the IAG website.

OUTLOOK

The Company is expected to continue to perform all treasury functions of IAG's New Zealand operations. The New Zealand Branch will remain as the issuer of 5,500,000 RES. Conversion of RES may be requested by a holder in connection with a reset date, or upon certain events. The next reset date is 16 December 2019. In response to a holder requesting conversion, or at its own election, on a reset date, the Company may convert RES into IAG ordinary shares, arrange a third party to acquire RES for their face value or redeem RES for their face value (redemption is subject to APRA approval.) Any of the various scenarios noted above, are expected to be funded in the normal course of IAG's business. It is IAG's present intention, subject to market conditions, to apply to APRA prior to the next reset date for approval for the Company to redeem RES.

As part of IAG's tax consolidated group, the franking credits available to the Company have reduced in recent years, owing to past capital management measures and the move to a higher dividend payout policy in relation to IAG's ordinary shares. As a result, the Company may not be in a position to fully frank distributions on its securities from the second half of calendar 2019 onwards, with franking from that date expected to be in the range of 70% to 100%.

If future distributions are not fully franked, the distribution rate will be increased to compensate holders for the unfranked portion of the distribution, subject to no payment conditions existing.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in Note 2.3.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of a matter subsequent to the end of the half year is set out below and in Note 2.4 within the financial statements:

- On 6 February 2019, a dividend of \$275,000 per share was determined by the Board. The dividend will be paid on 7 February 2019.

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

The Lead Auditor's Independence Declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2018.

ROUNDING OF AMOUNTS

Unless otherwise stated, amounts in the financial report and Directors' Report have been rounded to the nearest thousand dollars. The Company is of a kind referred to in the ASIC Corporations Instrument 2016/191 dated 24 March 2016 issued by the Australian Securities and Investments Commission. All rounding has been conducted in accordance with that instrument.

Signed at Sydney this 6th day of February 2019 in accordance with a resolution of the Directors.



Nicholas Hawkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

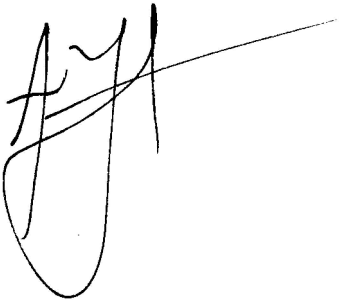
TO THE DIRECTORS OF IAG FINANCE (NEW ZEALAND) LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review of IAG Finance (New Zealand) Limited for the half year ended 31 December 2018 there have been:

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



KPMG



Andrew Yates
Partner

Sydney
6 February 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	31 December 2018 \$000	31 December 2017 \$000
Total interest revenue	12,317	12,035
Interest expense on reset exchangeable securities	(11,725)	(11,418)
Net interest income	592	617
Other income	39	38
Unrealised exchange gains/(losses)	14	(19)
Realised exchange losses	(7)	(1)
Other administration expenses	(258)	(292)
Profit before income tax	380	343
Income tax expense	(102)	(99)
Profit for the period	278	244
Total comprehensive income for the period, net of tax	278	244

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

BALANCE SHEET

AS AT 31 DECEMBER 2018

	NOTE	31 December 2018 \$000	30 June 2018 \$000
ASSETS			
Cash held for operational purposes		594	459
Loan to related bodies corporate	2.2	551,022	551,096
Deferred tax assets		8	8
Total assets		551,624	551,563
LIABILITIES			
Trade and other payables		160	158
Interest payable on reset exchangeable securities		952	1,023
Payables to related bodies corporate	2.2	108	23
Current tax liabilities		31	57
Employee benefits provision		21	28
Reset exchangeable securities	2.1	550,000	550,000
Total liabilities		551,272	551,289
Net assets		352	274
EQUITY			
Share capital		-*	-*
Retained earnings		352	274
Total equity		352	274

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

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	SHARE CAPITAL \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
31 December 2018			
Balance at the beginning of the financial period	- *	274	274
Profit for the period	-	278	278
Transactions with owners in their capacity as owners			
Dividends declared and paid	-	(200)	(200)
Balance at the end of the financial period	-	352	352
31 December 2017			
Balance at the beginning of the financial period	- *	422	422
Profit for the period	-	244	244
Transactions with owners in their capacity as owners			
Dividends declared and paid	-	(375)	(375)
Balance at the end of the financial period	-	291	291

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

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

CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	31 December 2018 \$000	31 December 2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	12,391	11,958
Interest costs paid	(11,795)	(11,352)
Income taxes paid	(128)	(107)
Other operating receipts	39	38
Other operating payments	(180)	(233)
Net cash flows from operating activities	327	304
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(200)	(375)
Net cash flows from financing activities	(200)	(375)
Net movement in cash held	127	(71)
Effects of exchange rate changes on balances of cash held in foreign currencies	8	(20)
Cash and cash equivalents at the beginning of the financial period	459	592
Cash and cash equivalents at the end of the financial period	594	501

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

NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW

NOTE 1.1 INTRODUCTION

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

NOTE 1.2 ABOUT THIS REPORT

A. CORPORATE INFORMATION

IAG Finance (New Zealand) Limited (Company) is a for-profit company, incorporated and domiciled in Australia and limited by shares. It has reset exchangeable securities (RES) publicly traded on the Australian Securities Exchange (ASX). Its registered office is Level 13, Tower Two, Darling Park, 201 Sussex Street, Sydney, NSW 2000, Australia and the principal place of business is Level 1, NZI Centre, 1 Fanshawe Street, Auckland, New Zealand. This financial report covers the financial statements of the Company for the half year period ended 31 December 2018.

This report is also to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

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

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

B. STATEMENT OF COMPLIANCE

This general purpose half year financial report was authorised by the Board of Directors for issue on 6 February 2019 and complies with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the recognition and measurement requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), the *Corporations Act 2001* and the ASX Listing Rules.

C. BASIS OF PREPARATION

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

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

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

D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

The accounting policies adopted in the preparation of this financial report have been applied consistently and are the same as those applied for the previous reporting year, unless otherwise stated. The significant accounting policies adopted in the preparation of this financial report are set out within the relevant note in the annual report for the year ended 30 June 2018.

I. Changes to accounting policies

The following new Australian Accounting Standard and Interpretation are applicable for the current reporting period.

TITLE	DESCRIPTION
AASB 9	Financial Instruments
AASB 15	Revenue from Contracts with Customers
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration

Adoption of the new and amended accounting standards had no material financial impact on the Company.

AASB 9 Financial Instruments

For the Company, AASB 9 *Financial Instruments* became effective for periods beginning on 1 July 2018, replacing the existing accounting requirements for financial instruments under AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 introduces changes to the classification and measurement of financial instruments, replaces the 'incurred loss' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets, and new general hedge accounting requirements. From a classification perspective, there was no impact to the Company's financial instruments as reflected in table below.

The Company has applied AASB 9 retrospectively, with no material change to the carrying amount of its financial instruments when measured under the requirements of AASB 9. An analysis has been performed of the expected credit losses associated with the Company's financial assets and note that no changes in provisions raised under AASB 139 are required when considering the lifetime expected credit losses associated with these assets.

The measurement bases of the Company's financial assets and liabilities under AASB 139 and AASB 9 are as follows:

Asset/liability	Measurement basis under AASB 139	Measurement basis under AASB 9	Carrying amount of asset/(liability) under AASB 9 and AASB 139 \$000
Cash	Amortised cost	No change	594
Loan to related bodies corporate	Amortised cost	No change	551,022
Reset exchangeable securities	Amortised cost	No change	(550,000)

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* also became effective for periods beginning on 1 July 2018, with no material impact to the Company. AASB 15 introduces a single model for the recognition of revenue based on when an entity satisfies the contractual performance obligations by transferring a promised good or service to a customer. It does not apply to financial instruments. Hence the majority of the Company's revenue is not impacted by this change. Revenue from contracts with customers, as defined by AASB 15, is disclosed as 'Other income' in the statement of comprehensive income, representing service fees charged for treasury services provided. There has been no material change in the measurement of 'Other income' on implementation of AASB 15 as the existing recognition and measurement of revenue under the applicable contracts meets the requirements under the new standard.

II. Critical accounting estimates and judgements

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

2. INTERIM DISCLOSURES

SECTION INTRODUCTION

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

NOTE 2.1 RESET EXCHANGEABLE SECURITIES

	31 December 2018		30 June 2018	
	Carrying value	Fair value	Carrying value	Fair value
	\$000	\$000	\$000	\$000
COMPOSITION				
5,500,000 reset exchangeable securities	<u>550,000</u>	<u>567,875</u>	<u>550,000</u>	<u>564,630</u>

The RES are publicly traded on the ASX which is considered an active market and so the fair value of the instrument at a point in time is taken to be the listed offer price (fair value hierarchy level 1). The listed offer price as at reporting date was \$103.25 per \$100.00 of face value (30 June 2018: \$102.66 per \$100.00 of face value).

NOTE 2.2 RELATED PARTY DISCLOSURES

INTRAGROUP BALANCE SHEET TRANSACTIONS

	31 December 2018 \$	30 June 2018 \$
Assets		
Loan to other bodies corporate – IAG (NZ) Holdings Limited*	<u>551,022,165</u>	<u>551,095,738</u>
Liabilities		
Amounts payable – to other related parties of the IAG Group	<u>107,893</u>	<u>23,187</u>

* The balance at reporting date included accrued interest of \$1,022,165 (30 June 2018: \$1,095,738) which is due in three months.

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

NOTE 2.3 DIVIDENDS

	31 December 2018 \$000	31 December 2017 \$000
A. ORDINARY SHARES		
2018 final dividend paid on 15 August 2018: \$200,000 (2017 final dividend: \$375,000) per ordinary share	<u>200</u>	<u>375</u>
B. DIVIDEND NOT RECOGNISED AT REPORTING DATE		
2019 interim dividend to be paid on 7 February 2019: \$275,000 (2018 interim dividend: \$275,000) per ordinary share	<u>275</u>	<u>275</u>

NOTE 2.4 EVENTS SUBSEQUENT TO REPORTING DATE

As the following transaction occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of this in the financial statements for the current half year ended 31 December 2018. This includes:

INTERIM DIVIDEND

- On 6 February 2019, a dividend of \$275,000 per share was determined by the Board. The dividend will be paid on 7 February 2019.

NOTE 2.5 NET TANGIBLE ASSETS

	31 December 2018 \$000	30 June 2018 \$000
Net tangible assets per ordinary share	<u>352</u>	<u>274</u>

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 2.5 are in accordance with the *Corporations Act 2001* including:
 - giving a true and fair view of the financial position of the Company as at 31 December 2018 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 6th day of February 2019 in accordance with a resolution of the Directors.



Nicholas Hawkins
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE SHAREHOLDERS OF IAG FINANCE (NEW ZEALAND) LIMITED

Conclusion

We have reviewed the accompanying half year financial report of IAG Finance (New Zealand) Limited (Company).

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

- giving a true and fair view of the Company's financial position as at 31 December 2018 and of its financial performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

The half year financial report comprises:

- Balance sheet as at 31 December 2018;
- Statement of comprehensive income, Statement of changes in equity, and Cash flow statement for the half year ended on that date;
- Notes 1 to 2.5 comprising a summary of significant accounting policies and other explanatory information; and
- Directors' declaration.

Responsibilities of the Directors for the half year financial report

The Directors of the Company are responsible for:

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

Auditor's responsibility for the review of the half year financial report

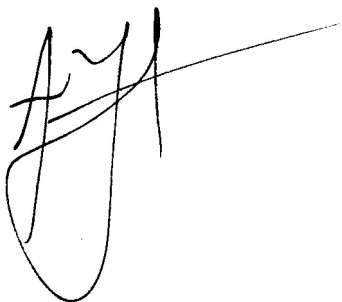
Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2018 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of IAG Finance (New Zealand) Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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



KPMG



Andrew Yates
Partner

Sydney
6 February 2019

10 IAG FINANCE (NEW ZEALAND) LIMITED

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Liability limited by a scheme approved under Professional Standards Legislation.