News release
8 December 2017

IAG improves capital efficiency and reduces earnings volatility with quota share agreements.

IAG has entered into three agreements to quota share a combined 12.5% of its consolidated business from 1 January 2018, which will improve IAG's capital mix through placing greater emphasis on the application of more efficient reinsurance capital.

The agreements, with reinsurers Munich Re, Swiss Re and Hannover Re, are on a whole-of-account basis, covering IAG's consolidated business in Australia, New Zealand and Thailand. They have an average initial period of more than five years.

From 1 January 2018, the reinsurers will receive a combined 12.5% of IAG's consolidated gross earned premium and pay 12.5% of claims and expenses. In addition, IAG will receive an exchange commission which recognises the value of accessing IAG's strong core franchise. The majority of the exchange commission will be in the form of a fixed fee (as a % of premium) with an additional element in the form of a profit share arrangement which depends on IAG's future profitability.

The agreements build on the 10-year, 20% whole-of-account quota share arrangement with Berkshire Hathaway which has been in place for over two years, and are expected to deliver similar benefits and financial effects on a pro rata basis:

- Reduced earnings volatility, with 12.5% of insurance risk effectively exchanged for a more stable fee income stream;
- Lower requirement for catastrophe reinsurance and reduced exposure to volatility in associated premium rates;
- A reduction in regulatory capital requirement of approximately $435 million, over a three-year period; and
- Broadly neutral EPS and ROE effects, prior to consideration of potential capital management impacts.

IAG Managing Director and Chief Executive Officer Peter Harmer said the agreements are a logical next step for the company.

"While our strategic priorities of customer, simplification and agility go to the heart of maximising the value of our customer platform, it is important we continue to pursue initiatives that optimise the mix of the supporting capital platform. These transactions are a clear step forward on that front.

"In tandem with the Berkshire Hathaway quota share, we have removed downside earnings risk from 32.5% of our business while retaining significant exposure to earnings upside via the profit share arrangements. We believe this is a good outcome for IAG shareholders," Mr Harmer said.

IAG Chief Financial Officer Nick Hawkins added: “We have previously indicated our intent to explore further quota share opportunities and are pleased we have been able to meet our return criteria via agreements with three of our key reinsurance counterparties.

“The agreements further reduce the volatility of our earnings, while delivering greater diversity of quota share counterparties and maturities. We see this form of reinsurance capital as an integral part of our capital mix and long-term sustainability,” Mr Hawkins said.

Catastrophe reinsurance

The combined 12.5% quota share agreements will further reduce IAG’s reliance on catastrophe reinsurance cover and its exposure to future volatility in reinsurance rates. In recognition of the new quota share agreements, at its calendar 2018 catastrophe renewal IAG will reduce the placement of its gross cover, from 80% to 67.5%.

Capital position

IAG’s key capital measure is its Common Equity Tier 1 (CET1) ratio, where it employs a benchmark target range of 0.9 to 1.1 times. This compares to a regulatory minimum of 0.6. IAG’s CET1 ratio at 30 June 2017 was 1.09, or 0.93 after allowance for the dividend paid in October 2017.

Based on the mid-point of IAG’s CET1 benchmark, the combined 12.5% quota share agreements are expected to result in an approximately $435 million reduction in IAG’s regulatory capital requirement over a three-year period. The vast majority of this is expected to occur within 18 months, including over $100 million identified at 31 December 2017.

It remains IAG’s intent to maintain its CET1 ratio within its targeted benchmark range, as well as a debt to total tangible capital ratio that supports its existing Standard & Poor’s rating of ‘AA-’ for its core operating subsidiaries.

FY18 guidance

While the new quota share agreements are expected to result in IAG’s insurance profit being broadly unchanged, they are anticipated to enhance IAG’s reported insurance margin by approximately 250 basis points per annum. This is driven by a lower net earned premium, following the identification of the 12.5% of gross earned premium as a reinsurance expense.

IAG’s FY18 results will include only six months of this effect. Accordingly, IAG has raised its FY18 reported insurance margin guidance by 125 basis points, to 13.75-15.75%.

IAG’s FY18 natural perils allowance reduces to $627 million (from $680 million) to reflect the new quota shares. All other pre-existing guidance assumptions are unchanged.

Aside from the previously mentioned regulatory capital impact on 31 December 2017, the combined 12.5% quota share agreements will have no effect on the 1H18 results for the six months ended 31 December 2017. These will be announced on 14 February 2018.

Management briefing

IAG’s Managing Director and Chief Executive Officer, Peter Harmer, and Chief Financial Officer, Nick Hawkins, will provide a briefing on the agreements at 11.30am AEDT on Friday, 8 December 2017. Details on the following page:

Webcast:

To join the webcast, please go to: IAG quota share briefing or access this link from the news item on the home page of IAG's website (www.iag.com.au).

Phone access:

To follow the briefing on your phone, please select from the following dial-in codes:

Australia	1800 558 698
New Zealand	0800 453 055
Canada	1855 8811 339
Hong Kong	800 966 806
Singapore	800 101 2785
United Kingdom	0800 051 8245
United States	855 881 1339

The conference ID/passcode is: 452917

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia. The Group's businesses underwrite over $11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information, please visit www.iag.com.au.

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Combined 12.5% quota share agreements

Peter Harmer
Managing Director and Chief Executive Officer

Nick Hawkins
Chief Financial Officer

8 December 2017

Overview

Peter Harmer

Managing Director and Chief Executive Officer

Capital mix optimisation

Nick Hawkins
Chief Financial Officer

Optimising our capital mix

Capital sustainability

Capital platform

- **Equity**
- **Debt / hybrids**
- **Reinsurance**

Two key decisions

- Quantum of capital
- Form of capital (mix)

Capital mix trends

- Increased diversification
- Reduced emphasis on equity and debt / hybrids
- Greater use of reinsurance capital

Reinsurance capital

Increased use of quota shares

Reinsurance capital

Catastrophe protection	Operating capital	Volatility cover
Calendar 2017: • $8bn of catastrophe cover (80% placed) • $250m MER ($200m post quota share) Calendar 2018: • **Move to 67.5% placement**	Quota shares: • 20% whole-of-account (Berkshire Hathaway) • 30% CTP (Munich Re) • **12.5% whole-of-account** (Munich Re, Swiss Re and Hannover Re)	• Aggregate cover (calendar year basis) • Perils stop-loss (financial year basis) • Run-off portfolio ADCs (asbestos, earthquake)
Increased multi-year component, over time	Counterparty and maturity diversification	Take-up influenced by prevailing market conditions

Combined 12.5% quota share agreements

With three of IAG's long-standing key reinsurance counterparties

Agreement details

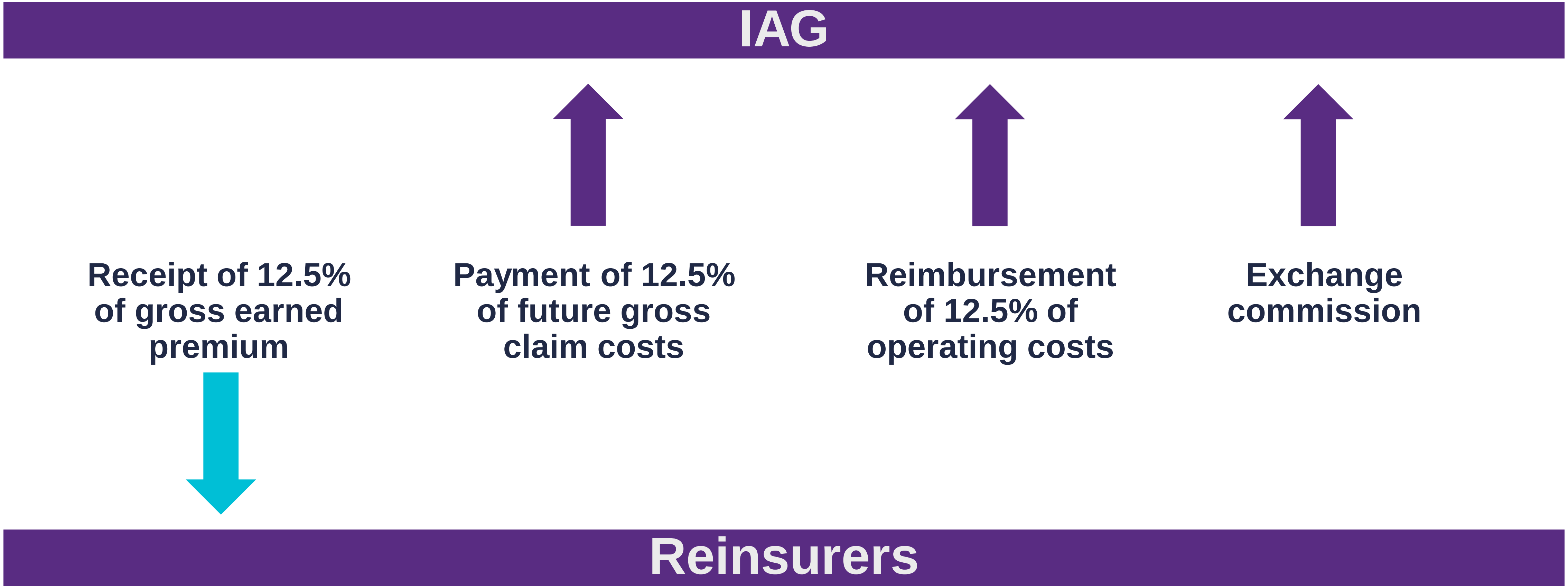
- Combined 12.5% whole-of-account arrangements
- With three of IAG's long-standing reinsurance counterparties: Munich Re, Swiss Re and Hannover Re
- Average initial term of over five years
- Covers all consolidated business in Australia, New Zealand and Thailand
- Commence 1 January 2018

Positive financial effects for IAG

- Reduced earnings volatility and downside risk
- Preservation of significant exposure to earnings upside, via profit shares
- Lower exposure to catastrophe reinsurance rates
- Reduction in regulatory capital requirement
- Broadly neutral EPS and ROE effects, pre-capital management

Mechanics of new quota shares

Similar outcome to existing 20% quota share



Exchange commission

Two components

Fixed fee

- Compensates IAG for the profitability of its franchise
- Fixed percentage of gross earned premium
- Set for term of agreements

Profit share

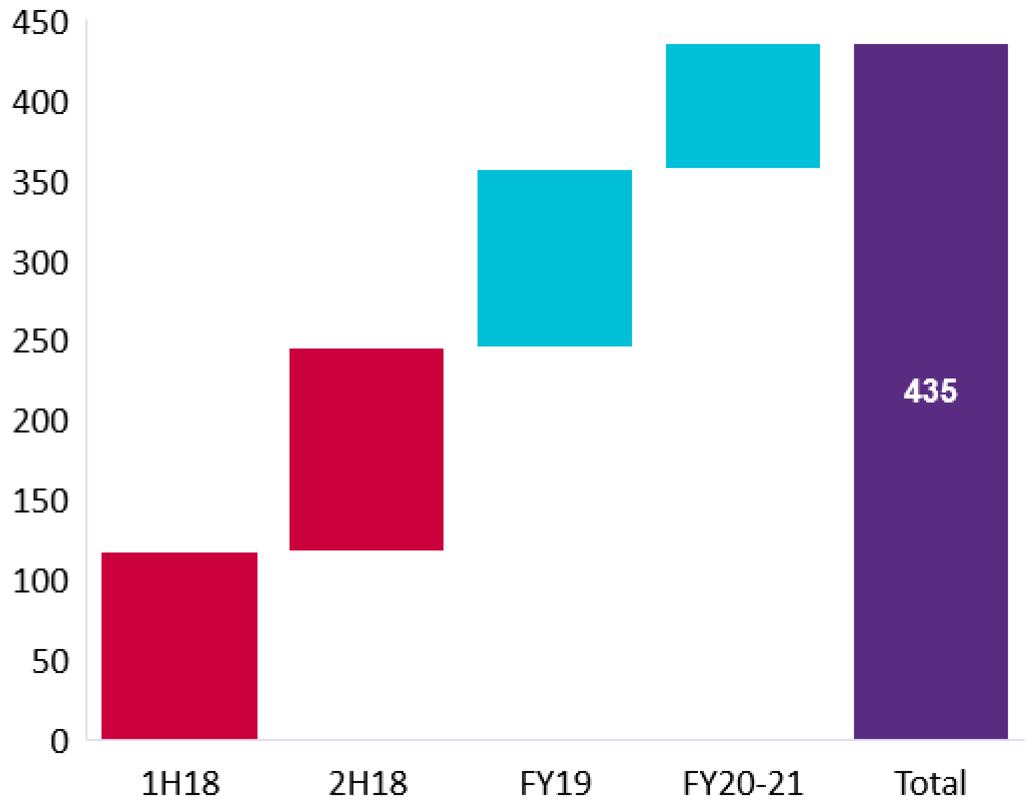
- Underwriting earnings in excess of agreed margin
- Uncapped
- Preserves IAG’s exposure to earnings upside

Financial impacts of 12.5% quota shares

Lower earnings volatility, reduced regulatory capital requirement

- **Reduced earnings volatility** – 12.5% of insurance risk effectively exchanged for fee income stream
- **Lower exposure to** volatility in **catastrophe reinsurance** rates and reduced capacity risk – planned placement of 2018 renewal at 67.5%
- **Enhanced** annualised **reported margin** – ~250 basis points, commencing 2H18
- ~$435m **reduction in regulatory capital requirement** over a three-year period
- **Broadly neutral EPS and ROE effects**, pre-capital management

12.5% quota shares – reduction in regulatory capital requirement



Summary

Peter Harmer

Managing Director and Chief Executive Officer

FY18 outlook

Sole revision reflects new quota shares' impact on 2H18 margin

FY18 guidance

GWP growth	Low single digit
Reported insurance margin	Range of 13.75-15.75%

Underlying assumptions

1. Net losses from natural perils of $627m
2. Reserve releases of at least 2%
3. No material movement in foreign exchange rates or investment markets

- GWP growth guidance of 'low single digit'
  - Ongoing rate increases expected in short tail personal lines (notably motor) to counter claims inflation
  - Further positive rate momentum in commercial classes, both in Australia and New Zealand
  - Lower NSW CTP pricing in recognition of greater scheme certainty, post-reform
  - Up to $60m GWP reduction from Swann – ceasing motorcycle dealer distribution, residue of car dealership divestment effect

- Reported insurance margin guidance of 13.75-15.75%, up from 12.5-14.5%
- 125 basis points impact from new 12.5% quota shares (six months' effect)
- Pre-existing assumptions:
  - Improved underlying performance
  - Reserve release expectation of 'at least 2%'
  - A relatively neutral impact from optimisation program activities

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

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