
INVESTOR REPORT 1H18

14 February 2018

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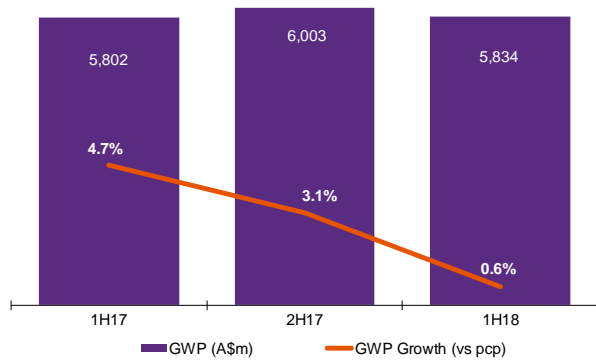
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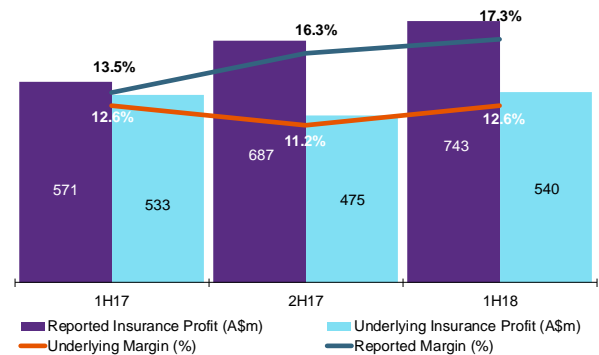
1H18 RESULTS

KEY RESULTS	1H17 A\$m	2H17 A\$m	1H18 A\$m	1H18 vs 1H17 Mvt
Gross written premium (GWP)	5,802	6,003	5,834	+0.6%
Net earned premium (NEP)	4,244	4,221	4,303	+1.4%
Insurance profit	571	687	743	+30.1%
Net profit after tax (NPAT)	446	483	551	+23.5%
Cash NPAT	479	511	630	+31.5%
Reported insurance margin	13.5%	16.3%	17.3%	+380bps
Underlying insurance margin	12.6%	11.2%	12.6%	+0bps
Cash return on equity (ROE)	14.8%	15.8%	19.1%	+430bps
Dividend (cents per share)	13.0	20.0	14.0	+7.7%
Common Equity Tier 1 Capital (CET1) multiple	1.09	1.09	1.19	+10bps

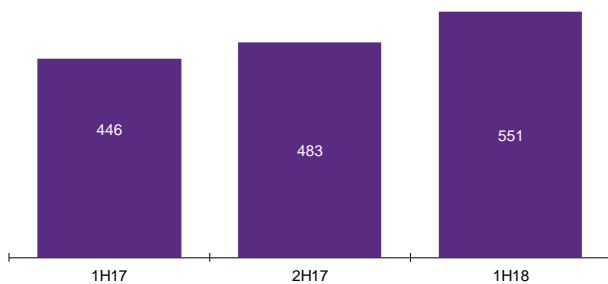
GWP GROWTH



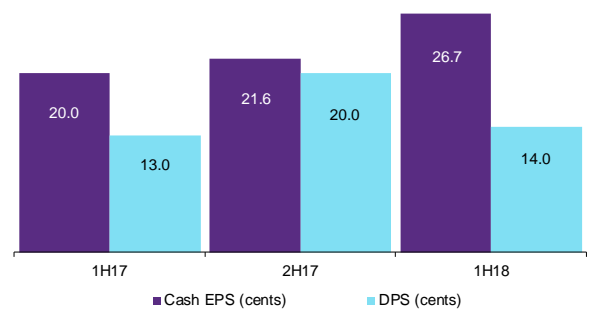
INSURANCE PROFIT & MARGIN



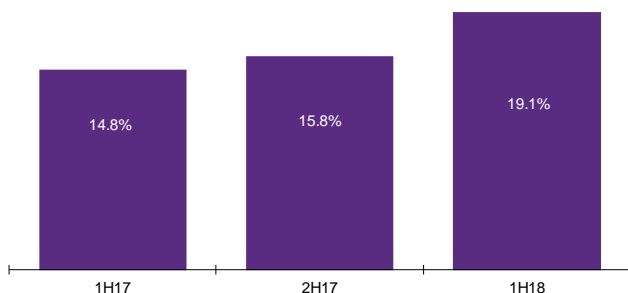
NET PROFIT AFTER TAX (A\$m)



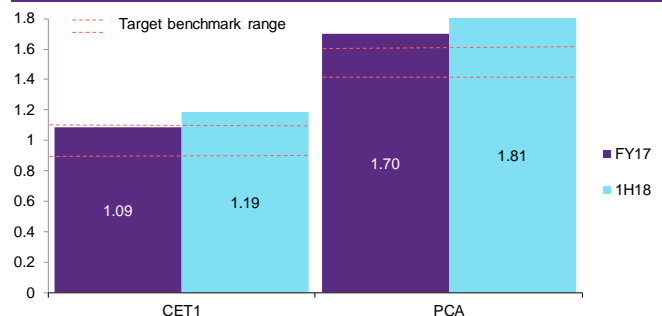
CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Improved underlying performance in 1H18, in line with expectations
- Like-for-like GWP growth of ~4% in positive short tail rating environment
- Lift in underlying margin¹ to 12.6%, compared to 2H17, as rate increases earn through and commercial property losses return to more normal levels
- Optimisation program progressing to plan – net benefit anticipated from FY19 onwards
- Reported margin of 17.3% includes favourable net perils experience and higher than expected net reserve releases
- \$50m writedown of Asian asset carrying values recognised
- Strong capital position maintained, above benchmark ranges
- Cash EPS of 26.66 cents (+33.4%), cash ROE of 19.1%
- Interim dividend raised to 14 cents – cash payout ratio of 52.5%
- FY18 reported insurance margin guidance raised to 15.5-17.5%, on back of increase in reserve release expectation to ~3% of NEP and 1H18 favourable credit spread impact
- Additional combined 12.5% quota shares announced in December 2017 – will further reduce earnings volatility and regulatory capital requirement
- Strategic review of options available for Asia announced – to be completed by end of calendar 2018

1H18 OVERVIEW

IAG has reported an improved underlying performance in 1H18, consistent with the expectations held, and guidance provided, at the outset of the year. This comprised:

- Like-for-like GWP growth of ~4%, as commercial pricing continued to improve in Australia and New Zealand and rate increases in short tail personal lines countered claim inflation pressures; and
- An improvement in underlying margin to 12.6%, compared to the recent low-point of 11.2% in 2H17. This reflected the earn-through of past and ongoing rate increases, as well as a return to more normal large loss experience in Australian commercial property and maintenance of improved NSW CTP profitability post initial reform measures.

Reported GWP growth was 0.6%, after absorbing the effects of discontinued business, changes to the Emergency Services Levy in NSW, lower GWP from NSW CTP owing to scheme reform measures and an adverse foreign exchange translation effect.

Across Australia and New Zealand, short tail personal lines' GWP growth was largely rate-driven, supplemented by modest volume growth in motor. Positive rate momentum in short tail commercial lines continued, partially offset by reduced volumes as remediation actions and maintained underwriting discipline tempered GWP growth.

IAG's optimisation program has continued to progress in line with expectations, with a neutral net earnings contribution anticipated in FY18 ahead of meaningful net benefits in FY19 and beyond.

IAG's reported margin, of 17.3%, was significantly higher than 1H17 (13.5%), owing to a favourable net natural peril claims experience against allowance, which accounted for 370bps of improvement. A higher favourable credit spread outcome also contributed, while net prior period reserve releases were lower than 1H17, but exceeded expectations.

Improved underlying
performance in 1H18

¹ IAG defines its underlying insurance margin 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.

1. EXECUTIVE SUMMARY

Asia reported an improvement in divisional result to \$15m (1H17: \$2m). IAG has announced it is conducting a strategic review to assess the options available for its Asian businesses. Separately, a \$50m writedown to the collective carrying value has also been recognised.

1H18 saw announcement of further quota share agreements with three reinsurers covering 12.5% of IAG's consolidated business. The quota shares commenced 1 January 2018 and have an average initial term in excess of five years. They improve IAG's capital mix through greater use of more efficient reinsurance capital, serving to reduce earnings volatility, lower exposure to catastrophe reinsurance rates and reduce regulatory capital requirements.

IAG is on track to achieve its 'low single digit' GWP growth guidance for FY18, and has increased its reported margin guidance to 15.5-17.5% to reflect a higher prior period reserve release assumption of around 3% of NEP and the favourable credit spread effect recorded in 1H18.

GROSS WRITTEN PREMIUM (GWP)

GWP in 1H18 amounted to \$5,834m, an increase of 0.6% over 1H17. This translates to like-for-like growth of ~4% after allowing for:

- Reduced GWP from ceased or divested activities of Swann Insurance;
- A decrease in CTP GWP from refunds and lower rates associated with NSW scheme reform, of the order of \$80m;
- A negative foreign exchange translation effect (-0.7%), primarily in respect of New Zealand; and
- Lower collection of premium after reintroduction of the Emergency Services Levy (ESL) in NSW.

This sound like-for-like GWP growth in 1H18 embraces the following elements, common to both Australia and New Zealand:

- Further rate response to claim cost pressures in short tail personal lines, particularly in motor;
- Ongoing favourable momentum in average commercial rates, with advances of ~5% in Australia and over 10% in New Zealand; and
- Modest volume effects, with growth in personal motor and CTP countered by slightly lower home and commercial levels of business.

UNDERLYING MARGIN

IAG's underlying margin of 12.6% was similar to 1H17 (12.6%), but a marked improvement on 2H17 (11.2%). This favourable reversal in trend included:

- The earned-through effect of past and ongoing rate increases in both personal and commercial short tail lines;
- Associated reduction of claim cost pressures in short tail motor, as rate increases at least matched increases in average claim costs;
- More normal large loss experience in Australian commercial property, after the adverse severity experienced in 2H17; and
- Maintenance of the improved CTP profitability seen in 2H17, as initial reform measures in NSW result in lower small claims frequency.

The 1H18 underlying margin included a small net negative from the company-wide optimisation program, as implementation costs borne 'above-the-line' exceeded benefits realised. Future anticipated impacts remain:

- A broadly neutral effect in FY18; and
- A greater than \$100m pre-tax net benefit in FY19.

Like-for-like GWP growth of
~4%

Favourable reversal in
underlying margin trend, to
12.6%

1. EXECUTIVE SUMMARY

REPORTED INSURANCE MARGIN

IAG's 1H18 reported insurance profit of \$743m was over 30% higher than 1H17 (\$571m). The reported insurance margin of 17.3% (1H17: 13.5%) included:

- Net natural peril claim costs of \$262m (1H17: \$420m), which were \$78m lower than allowance, as IAG benefited from its aggregate reinsurance cover which, in particular, limited the impact of the major Melbourne hailstorm event in December 2017 to \$20m;
- Higher than expected net prior period reserve releases of \$121m, equivalent to 2.8% of NEP, down from \$155m (3.7% of NEP) in 1H17. These were derived from Australian long tail classes, principally CTP, partially offset by over \$50m of strengthening in New Zealand from a combination of influences; and
- A more favourable credit spread impact of \$47m, compared to \$5m in 1H17.

Reported margin of 17.3% boosted by favourable peril and credit spread effects

DIVISIONAL HIGHLIGHTS

DIVISION	1H17				1H18			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
	A\$m	%	%	%	A\$m	%	%	%
Australia	4,483	5.1	16.5	12.2	4,453	(0.7)	18.8	11.4
Consumer	3,060	7.4	21.5	14.1	3,052	(0.3)	23.0	13.9
Business	1,423	0.3	7.1	8.8	1,401	(1.5)	10.4	6.5
New Zealand	1,128	5.4	4.3	15.3	1,190	5.5	14.2	17.4
Asia	182	(7.6)	nm	nm	185	1.6	nm	nm
Corporate & Other	9	nm	nm	nm	6	nm	nm	nm
Total Group	5,802	4.7	13.5	12.6	5,834	0.6	17.3	12.6

Australia (76% of GWP) produced like-for-like GWP growth of nearly 3%, as short tail personal lines rates met claim inflation issues and average commercial rates maintained a positive trajectory. Slightly lower reported GWP bore adverse impacts from discontinued business, ESL collection changes and NSW CTP reform effects, collectively amounting to over \$150m, compared to 1H17. Australia's reported margin rose to 18.8%, assisted by more favourable peril, reserve release and credit spread outcomes than those of 1H17. The underlying margin was slightly lower, at 11.4%, but an improvement over 2H17. At an Australian segment level:

- **Consumer** (52% of GWP) posted slightly lower GWP and underlying margin outcomes compared to 1H17. Top line performance was as expected, after a nearly-\$80m reduction from NSW CTP reform influences. Consumer's underlying margin exceeded that of 2H17 as increased rates earned through; and
- **Business** (24% of GWP) reported a 1.5% reduction in GWP, reflecting discontinued business and ESL change effects. Average commercial rate increases maintained a momentum of around 5%, with some offset from lower new business and retention, as well as portfolio remediation. Underlying margin improved on the low seen in 2H17, helped by a more normal large loss experience in commercial property portfolios.

New Zealand continued to perform strongly. Local currency GWP growth of over 9% was restricted to 5.5% on foreign exchange translation, as strong rises in commercial rates were supplemented by ongoing personal lines momentum. Underlying profitability remains strong, while reported margin benefited from the absence of the earthquake event which impacted 1H17.

Core businesses in Australia and New Zealand performing soundly, registering improved underlying profitability over 2H17 low-point

1. EXECUTIVE SUMMARY

Asia produced an improved profit contribution of \$15m, owing to better results from Thailand, Malaysia and India. Proportional GWP grew by over 5%, driven by the strong growth that continues to be a feature of India, with some offset from softer conditions in Malaysia following liberalisation measures in that market.

ASIA STRATEGIC REVIEW

As part of its overall Asia strategy, IAG has expressed a strong interest in growth via market consolidation and increased ownership. IAG's current assessment is that such opportunities are limited, resulting in the decision to conduct a strategic review of the options available for its Asian businesses. This review is expected to be concluded by the end of calendar 2018.

Strategic review of Asian options to be completed by end of calendar 2018

NET PROFIT AFTER TAX / ROE

Net profit after tax of \$551m was over 23% higher than 1H17 (\$446m). In addition to the significant increase in insurance profit, this outcome included the net effect of:

Cash ROE of 19.1%, well in excess of long term target

- A higher contribution from investment income on shareholders' funds, incorporating strong equity market returns;
- A higher tax rate of approximately 25%, owing to the absence of the favourable tax effect on FY11-related earthquake reinsurance recoveries by an offshore captive vehicle which reduced the 1H17 tax rate to 17%; and
- A \$50m writedown included in the amortisation and impairment expense, after a review of the recoverable amount of the Asian assets on the back of updated assumptions and forecasts.

Cash EPS was 26.66 cents, an increase of 33.4% over 1H17.

Reported return on equity (ROE) in 1H18 was 16.8%, while cash ROE was 19.1%. This compares to IAG's through-the-cycle target of at least 1.5 times weighted average cost of capital (WACC), which equates to an ROE of approximately 15% on a longer term perspective.

DIVIDEND

The Board has determined to pay an interim fully franked dividend of 14.0 cents per ordinary share (1H17: 13.0cps), equating to a 52.5% cash payout ratio.

Increased interim dividend – 52.5% of cash earnings

CAPITAL

IAG's capital position remains strong. At 31 December 2017 IAG's Common Equity Tier 1 (CET1) ratio was 1.19, against a target benchmark of 0.9-1.1. This ratio included an initial balance date benefit of 4 basis points (bps) from the combined 12.5% quota shares announced in December 2017.

Strong capital position maintained

After allowance for the 1H18 dividend of 14 cents per share, which will be paid at the end of March 2018, the CET1 multiple at 31 December 2017 would be at the upper end of IAG's benchmark range.

IAG's debt to total tangible capitalisation ratio at 31 December 2017 was 31.1%, at the lower end of its targeted 30-40% range.

IAG's core operating insurance subsidiaries continue to hold 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG is rated 'A'.

IAG's probability of adequacy for the outstanding claims liability remained 90% at 31 December 2017.

1. EXECUTIVE SUMMARY

FY18 OUTLOOK

IAG expects to report further improvement in its underlying performance in 2H18.

FY18 GWP guidance of 'low single digit growth' is unchanged. Further rate-driven growth is anticipated in short tail personal and commercial lines over the balance of the year, countered by the impact of rate reductions in NSW CTP and the cessation of Swann Insurance's participation in the motor cycle dealership channel. Negative ESL-related effects borne in 1H18 are expected to largely reverse in 2H18.

In December 2017, IAG increased its reported margin guidance for FY18, from 12.5-14.5% to 13.75-15.75%, to reflect six months' impact of the combined 12.5% quota share agreements which commenced on 1 January 2018.

Following finalisation of its 1H18 results, IAG has further upgraded its FY18 reported margin guidance to 15.5-17.5%, to reflect:

- An increased prior period reserve release assumption of around 3% of net earned premium (previously 'at least 2%'), recognising the persistence of particularly benign inflationary conditions; and
- Inclusion of the favourable credit spread impact of \$47m reported in 1H18, which represents a positive margin effect of around 60bps on a full year basis.

Following these revisions, the key assumptions behind IAG's updated FY18 margin guidance are:

- Net losses from natural perils in line with allowance of \$627m (unchanged);
- Prior period reserve releases of around 3% of NEP;
- No material movement in foreign exchange rates or investment markets in 2H18; and
- A neutral impact from optimisation program initiatives, as benefits are broadly matched by related implementation costs.

While IAG now expects prior period reserve releases of around 3% of NEP in FY18, it remains the Group's belief that long term reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods.

FY18 GWP growth guidance unchanged, at 'low single digit'

FY18 reported margin guidance raised to 15.5-17.5%

2. STRATEGY

Optimise our core insurance business while creating future growth options



At IAG, our **purpose** is to **make your world a safer place**: IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves across Australia, New Zealand or Asia, IAG exists to 'make your world a safer place'. IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.

2. STRATEGY

FINANCIAL TARGETS

IAG is focused on delivering through-the-cycle targets of:

- Cash return on equity (ROE) 1.5x weighted average cost of capital (WACC);
- A dividend payout of 60-80% of cash earnings;
- Top quartile total shareholder return (TSR); and
- Approximately 10% compound earnings per share (EPS) growth.

STRATEGIC PRIORITIES

IAG has identified three key strategic priorities, supported by organisational capabilities, to deliver its strategy:

I. Customer – World-leading customer experiences:

- Create a delivery platform that transforms customer experiences;
- Better connect customers and automate processes, enabling IAG to reach more customers in a timely manner;
- Develop an innovation approach which provides the ability to think differently and deliver quickly;
- Embed cognitive capabilities and artificial intelligence that anticipate customers' needs; and
- Use data to power decision-making, allowing IAG to better understand its customers.

II. Simplification – Simplified, modular and lower cost operating model:

- Reduce organisational complexity by consolidating technology platforms, harmonising products, simplifying processes and systems, and executing the technology strategy;
- Leverage operational partners to optimise the operating model and drive scale economies across the value chain; and
- Improve allocation and maximise utilisation of the preferred repairer network to reduce average claim size.

III. Agility – An agile organisation distinguished by innovation, speed and execution skills:

- Create a disciplined approach to IAG's management and leadership, including building stronger role clarity and introducing agile ways of working;
- Build a talent pipeline based on the skills required to deliver IAG's strategy and help IAG people transition to the future of work; and
- Be recognised as a purpose-led organisation that shapes its internal and external environment.

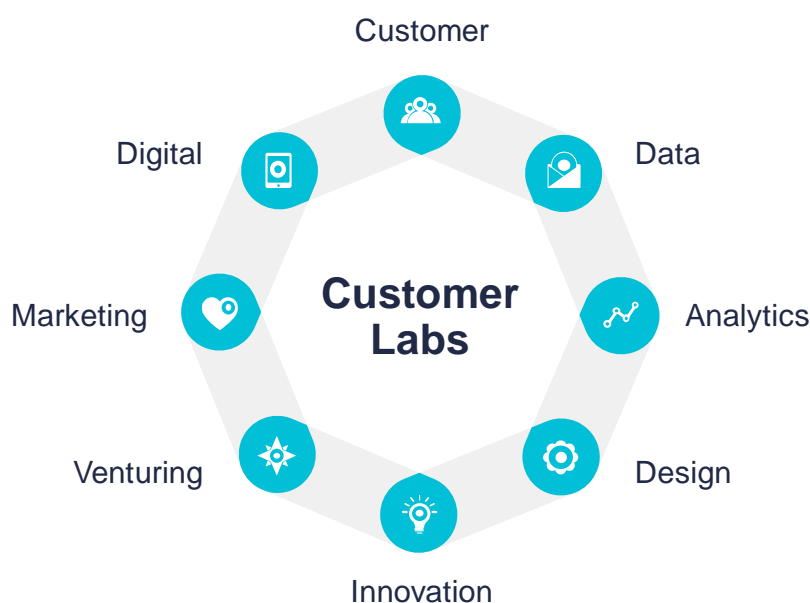
3. CUSTOMER LABS

CUSTOMER LABS

Customer Labs is central to IAG's strategy and its competitive advantage over the longer term. It is responsible for IAG's customer experience strategy, which entails innovation in product, pricing and marketing, data insights, brand architecture, human centred design, new business incubation and venturing. Customer Labs is also the champion of digital innovation across IAG, including the identification and harnessing of disruptive technology and building digital solutions and ecosystems. Customer Labs focuses on deeply understanding customers to create relevant personalised experiences in an increasingly digital world.

Customer Labs

Bringing capability together to shape customer-experience strategy and innovation



OVERVIEW & FUTURE OPPORTUNITIES

Customer Labs brings together expert capabilities to create world-leading customer experiences. Engagement with customers provides valuable insights that fuel and inspire IAG's innovation efforts.

Customer & Marketing

The customer segmentation model developed in FY17 remains key to Customer Labs' work. In 1H18, the model was used to inform value propositions for customers along the customer journey, and to deploy brand positioning that aligns to IAG's core customer segments. Throughout 2H18 and beyond, Customer Labs will continue to bring to life the reimagined customer model and grow the impact of IAG's brands by ensuring they speak clearly to the target customer segments.

To expand customer understanding, in 1H18 Customer Labs implemented more detailed, active, real-time advocacy and experience measures. The measurement programs will continue to extend to a growing range of customer touchpoints allowing IAG to create increasingly personalised experiences across all channels. Additionally, Customer Labs' marketing automation work will lead to more targeted customer communications.

There has been strong progress within IAG's Customer Inclusion Program, which supports access to insurance for vulnerable customers. Customer Labs has taken steps to increase product understanding and has implemented changes to IAG's offering and processes.

Customer segmentation model at heart of Customer Labs' work

3. CUSTOMER LABS

Data, Analytics & Artificial Intelligence (AI)

Customer Labs continues to draw on data to grow its understanding of customers. Ambiata, IAG's wholly-owned subsidiary, remains a source of AI expertise and innovation across the company, including the exploration of intelligent agents, machine-learning techniques and computer visioning.

In 1H18 Customer Labs deployed a voice-activated AI capability to gain insights from IAG's enterprise data hub. Personalisation has been further enhanced by the automation of data flows to ensure relevance of insights for customers. This will be augmented by a cognitive capability for tailoring customer experience. In 1H18 Customer Labs expanded fraud analytics across portfolios to support detection and prevention of false claims.

The scaling of IAG's data storage and computing capability has enabled improved data throughput and real-time data capture via the cloud.

IAG's world-class pricing capability remains a key focus, with further improvements to pricing approaches planned through the use of intelligent learning systems.

Digital

As part of IAG's digital innovation strategy, Customer Labs commenced delivery centred on the redesign of customer journeys. The digital SME proposition has been improved, including website optimisation to enable its implementation, and emergency online lodgement capability has been extended across brands. Other activities in 1H18 included the development and testing of an Application Programming Interface (API) enabled partnering approach for select applications and the expanded use of cloud to house digital applications.

Customer Labs' future focus will continue to be on accelerating the digital transformation. The core elements underpinning this include personalisation, further development of APIs, scaling of the digital infrastructure and growing the use of cloud to achieve flexible, cost-effective infrastructure.

Innovation & Venturing

At IAG innovation entails learning, experimentation and partnering. In 1H18 IAG became the only insurer to join the iMove Cooperative Research Centre, which connects governments, universities and leading Australian companies to explore the future of transport and smart mobility.

Following the establishment in FY17 of the IAG incubation hub, Firemark Labs, Customer Labs has a growing portfolio of products and services undergoing market testing. These include:

- Sharecover – host property rental insurance;
- Safer Journeys – making driving safer by rewarding customers who limit their mobile phone usage while in the vehicle;
- Poncho Insurance – combining motor and contents insurance in one transaction;
- Insurance-4-That – providing coverage for individual items; and
- Pet insurance.

The IAG Firemark Ventures investment fund was established in FY17 with earmarked funding of \$75m. It has assessed over 100 strategic investment opportunities in the financial year-to-date. Almost \$10m has been invested in five companies, with one successful exit. These companies include:

Drawing on data to grow customer understanding

Focus on accelerating IAG's digital transformation

Three investments completed in 1H18 by Firemark Ventures

3. CUSTOMER LABS

- Upguard – a cyber security company;
- Hyper Anna – an AI for analytics platform; and
- Life360 – a location-sharing app with over 100 million downloads globally.

IAG will continue partnering with emerging businesses and identifying new investment opportunities, particularly in areas that have the potential to disrupt the insurance value chain or which can meaningfully enrich customers' experiences. IAG views relationships with research institutions, start-up communities and partners as critical to its innovation efforts.

4. GROUP RESULTS

FINANCIAL PERFORMANCE

	1H17 A\$m	2H17 A\$m	1H18 A\$m
GROUP RESULTS			
Gross written premium	5,802	6,003	5,834
Gross earned premium	5,868	5,824	5,966
Reinsurance expense	(1,624)	(1,603)	(1,663)
Net earned premium	4,244	4,221	4,303
Net claims expense	(2,625)	(2,638)	(2,591)
Commission expense	(416)	(422)	(421)
Underwriting expense	(669)	(678)	(675)
Underwriting profit	534	483	616
Investment income on technical reserves	37	204	127
Insurance profit	571	687	743
Net corporate expense	(4)	(4)	-
Interest	(51)	(42)	(39)
Profit/(loss) from fee based business	(1)	(33)	-
Share of profit from associates	9	12	19
Investment income on shareholders' funds	105	144	138
Profit before income tax and amortisation	629	764	861
Income tax expense	(109)	(220)	(213)
Profit after income tax (before amortisation)	520	544	648
Non-controlling interests	(45)	(31)	(18)
Profit after income tax and non-controlling interests (before amortisation)	475	513	630
Amortisation and impairment	(29)	(30)	(79)
Profit attributable to IAG shareholders	446	483	551
Insurance Ratios	1H17	2H17	1H18
Loss ratio	61.9%	62.5%	60.2%
Immunised loss ratio	63.9%	61.6%	60.9%
Expense ratio	25.6%	26.1%	25.5%
Commission ratio	9.8%	10.0%	9.8%
Administration ratio	15.8%	16.1%	15.7%
Combined ratio	87.5%	88.6%	85.7%
Immunised combined ratio	89.5%	87.7%	86.4%
Reported insurance margin	13.5%	16.3%	17.3%
Underlying insurance margin	12.6%	11.2%	12.6%
Key Financial Metrics (Total Operations)	1H17	2H17	1H18
Reported ROE (average equity) (% pa)	13.7%	14.9%	16.8%
Cash ROE (average equity) (% pa)	14.8%	15.8%	19.1%
Basic EPS (cents)	18.61	20.45	23.32
Diluted EPS (cents)	17.92	19.70	22.60
Cash EPS (cents)	19.98	21.64	26.66
DPS (cents)	13.00	20.00	14.00
Probability of adequacy	90%	90%	90%
NTA backing per ordinary share (\$)	1.28	1.36	1.41
CET1 multiple	1.09	1.09	1.19

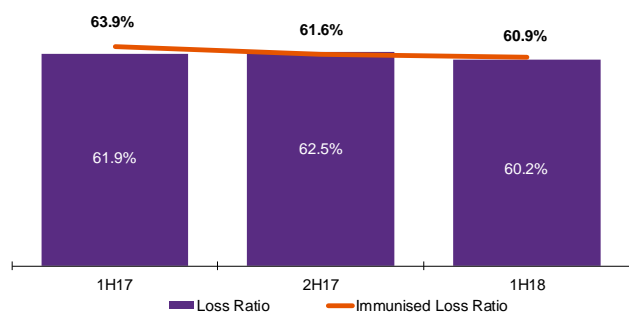
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A\$	Balance Sheet (spot rate)		Income Statement (average rate)		
	1H17	2H17	1H18	1H17	1H18
New Zealand dollar	1.0388	1.0488	1.1013	1.0514	1.0917
Thai baht	25.8331	26.0485	25.4259	26.4550	25.8198
Malaysian ringgit	3.2355	3.2964	3.1597	3.1497	3.2786
Indian rupee	49.0196	49.6278	49.8504	50.6073	50.2513

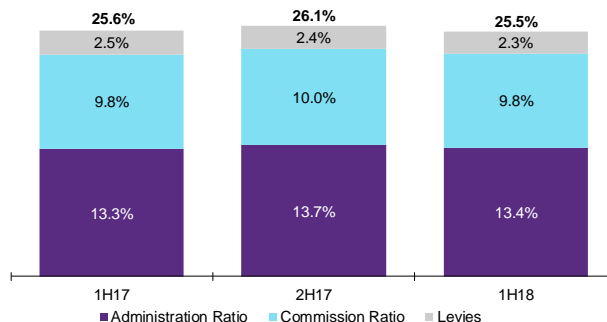
4. GROUP RESULTS

INSURANCE RATIOS

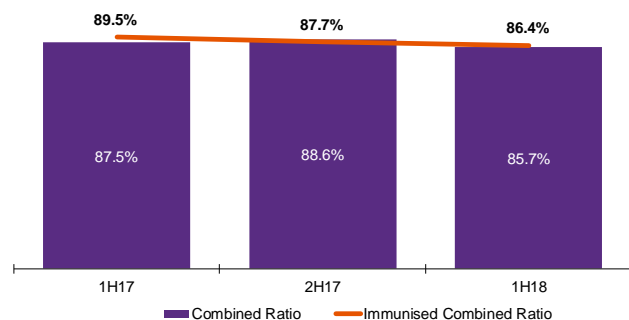
LOSS RATIO



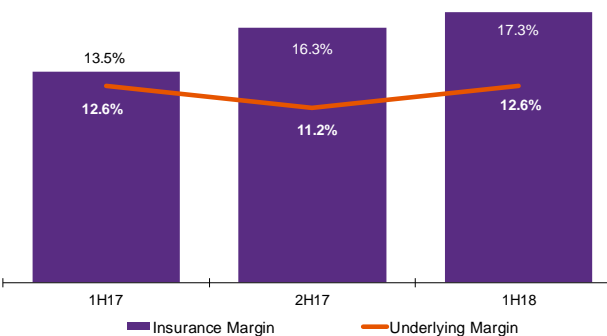
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



PREMIUMS

In 1H18 IAG's total GWP amounted to \$5,834m. While a modest increase over 1H17, like-for-like growth was around 4%, after allowing for:

- Significantly lower premium from NSW CTP, where rate reductions and premium refunds in the face of scheme reform reduced GWP by ~\$80m;
- A \$23m reduction in GWP from exiting motor dealership and motorcycle activities within Swann Insurance in Australia;
- Lower ESL-related GWP, to the extent of nearly \$50m, following the reintroduction of this levy in NSW in 1H18. An opposing effect of similar magnitude is expected in 2H18, resulting in a modest full year impact; and
- Adverse foreign exchange movements, most notably in respect of New Zealand, which trimmed reported GWP by over \$40m.

Underlying GWP growth in 1H18 exceeded \$220m, underpinned by:

- Mid-single-digit rate increases in short tail motor, countering claim inflation pressures in both Australia and New Zealand; and
- Ongoing positive average rate momentum in short tail commercial lines, reflecting targeted increases in Australia and favourable strengthening conditions in New Zealand, notably in the Wellington region.

Comparing 1H18 GWP with 1H17 on a divisional basis:

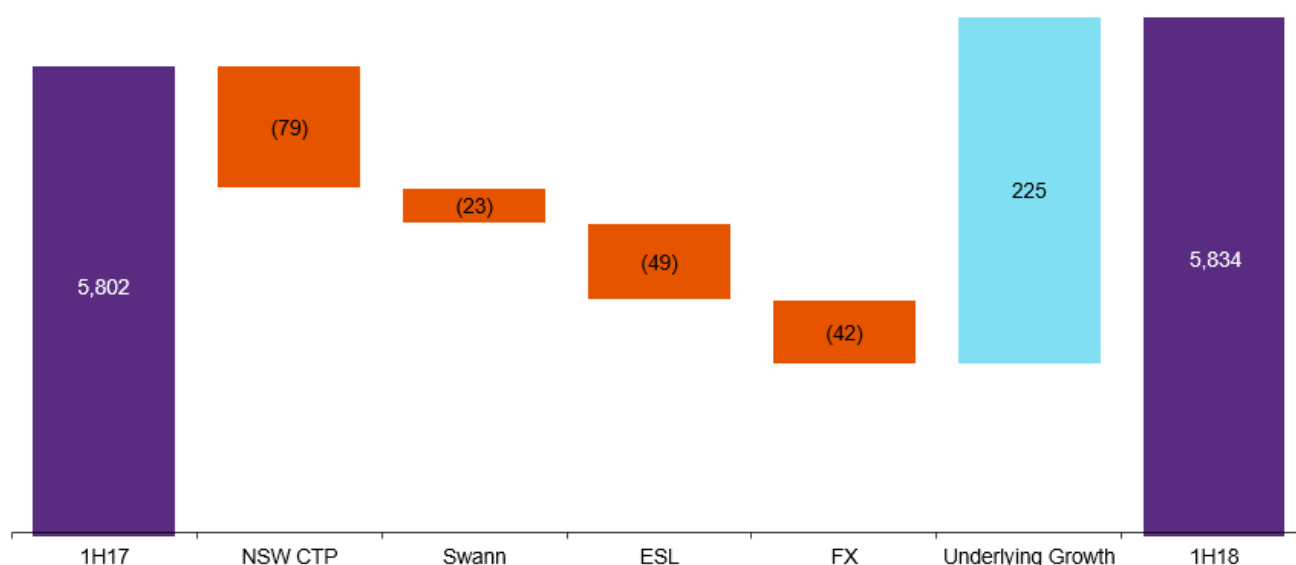
- **Australia** was marginally lower, at \$4,453m, with like-for-like growth of nearly 3% after allowance for impacts from discontinued business areas, ESL collection changes and the influence of NSW CTP reform. Within this:

Like-for-like GWP growth of ~4% in 1H18, fuelled by rate increases in short tail personal and commercial lines

4. GROUP RESULTS

- **Consumer** GWP of \$3,052m was flat, with like-for-like growth in excess of 3% after excluding ESL and NSW CTP effects. GWP growth of nearly 5% in short tail motor was largely rate-driven, as was underlying home growth (ex-ESL) of nearly 3%; and
- **Business** GWP declined slightly to \$1,401m. Removing the impact of discontinued Swann Insurance activities and ESL changes, like-for-like growth of 1.4% was recorded. This embraced rate increases in most classes, offset by lower new business volumes, slightly lower retention and some shedding of poorly performing business;
- **New Zealand** recorded strong local currency GWP growth of 9.5%, reduced to reported growth of 5.5% (to \$1,190m) by an adverse foreign exchange movement. Double digit rate increases in commercial lines were partially offset by lower new business volumes, while ongoing growth in personal lines was derived from a mixture of volume and rate, led by motor; and
- **Asia** consolidated GWP increased by 1.6%, to \$185m, reflecting a strong resumption of growth in the Thai motor market, partially offset by a deliberate reduction in commercial lines exposure. On a proportional basis, like-for-like GWP increased by over 5% with continued strong growth in India slightly offset by post-liberalisation weakness in Malaysia.

GWP – 1H18 VS. 1H17 (A\$M)



INSURANCE MARGIN

IAG's underlying insurance margin was similar to 1H17, at 12.6%, and represented an improvement over the low-point of 11.2% recorded in 2H17. Features of the upturn in underlying margin over the last six months were:

- Rate-driven growth in earned premium from past and ongoing pricing initiatives, covering short tail personal and commercial classes in both Australia and New Zealand;
- Related alleviation of claim cost pressures, notably in short tail motor, as rate increases at least matched increases in average claim costs;
- A reversion to more normal large loss experience in Australian commercial property, following the heightened severity witnessed in 2H17; and
- Maintenance of the improved CTP profitability seen in 2H17, as initial reform measures in the NSW market reduced claims frequency.

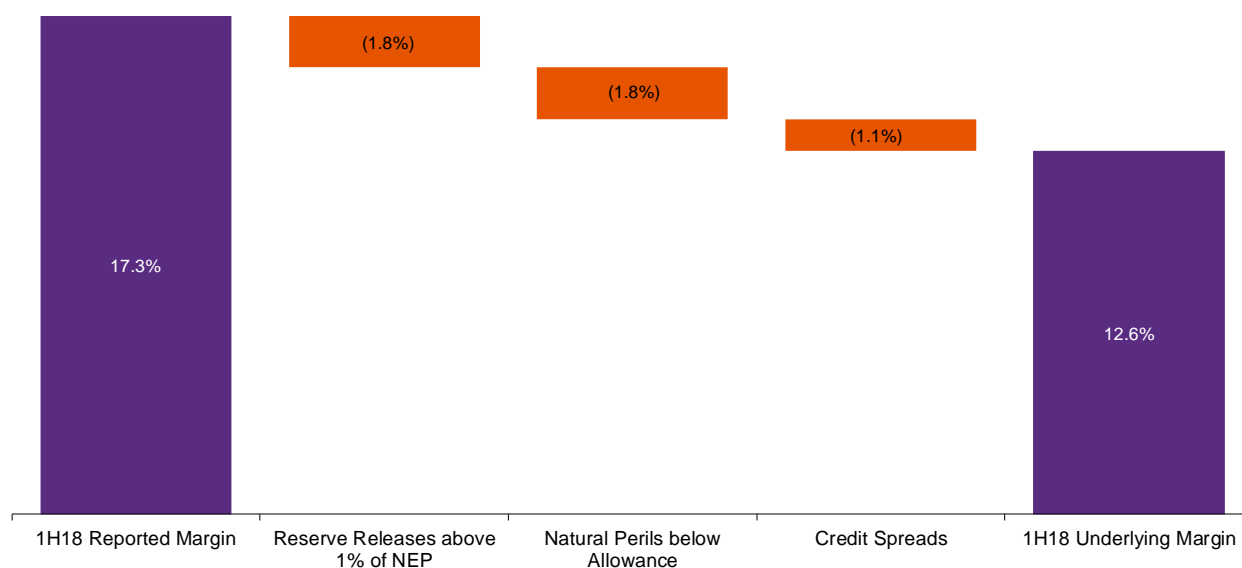
Improved underlying margin of 12.6%, compared to 2H17

4. GROUP RESULTS

IAG's underlying margin is its reported insurance margin adjusted for:

- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



A higher reported margin of 17.3% (1H17: 13.5%) resulted from a greater than 30% increase in insurance profit, to \$743m (1H17: \$571m). This included:

- A favourable natural peril experience, assisted by use of reinsurance protection, which saw related claim costs fall below allowance by \$78m, in contrast to a similar-sized overrun against allowance in 1H17;
- Higher than originally anticipated net prior period reserve releases of \$121m, representing 2.8% of NEP, although lower than the corresponding contribution in 1H17; and
- An increase in favourable credit spread impact to \$47m (1H17: \$5m), following the narrowing of spreads.

Higher reported margin of 17.3%, including favourable peril and credit spread effects

Individual divisional insurance margin outcomes in 1H18 comprised:

- A slightly lower underlying margin of 11.4% from **Australia** compared to 1H17, but an improvement on 2H17. A greater than 200bps increase in reported margin, to 18.8%, embraced favourable peril and credit spread movements. At an Australian segment level:
 - **Consumer** produced a slightly lower underlying margin outcome compared to 1H17, alongside a strong reported margin amplified by favourable peril, reserve release and credit spread effects; and
 - **Business** showed a recovery in underlying margin from the low of 2H17, as the benefits of past rate increases began to feed through and commercial property large losses returned to a more normal level. Reported margin exceeded 10%, assisted by reserve releases;
- **New Zealand** produced a continuance of its strong underlying margin performance, with an outcome of 17.4% comfortably exceeding the corresponding period, while an absence of earthquake events helped drive a significantly higher reported margin of 14.2%; and

Underlying margin improvement evident in Australia and New Zealand, compared to 2H17

4. GROUP RESULTS

- A reduction in insurance loss from **Asia** to \$2m, as a relative absence of large losses and prior period reserve strengthening followed commercial remediation activity in Thailand. This was partially countered by a higher combined loss from Vietnam and Indonesia.

INSURANCE MARGIN IMPACTS	1H17 A\$m	2H17 A\$m	1H18 A\$m
Reserve releases	155	302	121
Natural perils	(420)	(402)	(262)
Natural peril allowance	340	340	340
Credit spreads	5	15	47
Reserve releases	3.7%	7.2%	2.8%
Natural perils	(9.9%)	(9.5%)	(6.1%)
Natural peril allowance	8.0%	8.1%	7.9%
Credit spreads	0.1%	0.4%	1.1%

REINSURANCE EXPENSE

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

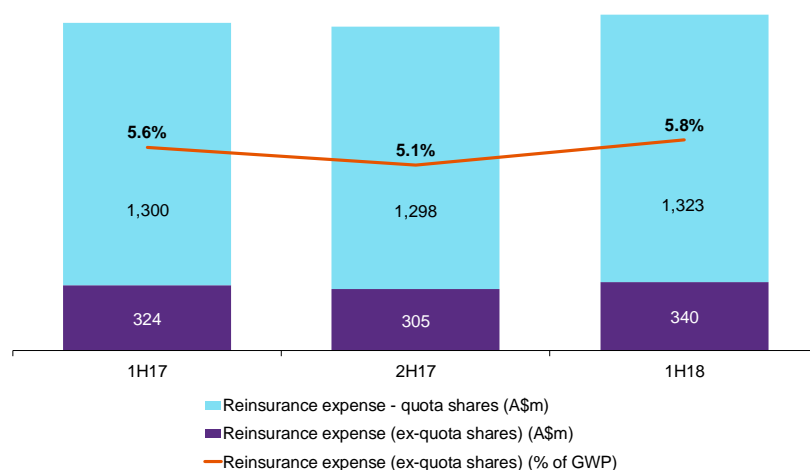
The 1H18 expense of \$1,663m compares to \$1,624m in 1H17. The 2.4% increase comprises:

- A near-2% increase in quota share entitlements, to \$1,323m (1H17: \$1,300m), in line with higher gross earned premium. This attaches to the 20% whole-of-account arrangement with Berkshire Hathaway as well as the 30% CTP agreement with Munich Re; and
- A higher underlying reinsurance expense, reflecting aggregate growth, increased cover and some offset from the lower rate realised for the calendar 2017 catastrophe renewal.

The 1H18 underlying reinsurance expense of \$340m represented a greater than 11% increase over 2H17, primarily because of the seasonality of the heavily reinsured crop book, which falls almost entirely in the first half of each financial year.

Higher underlying reinsurance expense includes aggregate growth and increased cover

REINSURANCE EXPENSE



4. GROUP RESULTS

CLAIMS

A lower immunised loss ratio of 60.9% (1H17: 63.9%) contained:

- Significantly lower net natural peril claim costs, over \$150m below those incurred in 1H17;
- A greater than \$30m reduction in net prior period reserve releases, although in excess of levels anticipated at the outset of the year; and
- A marginally improved underlying claims performance, as rate increases address claim inflation issues. Improvement was more marked against 2H17, which embraced a higher than normal large loss experience in Australian commercial property.

The 1H18 reported loss ratio was 60.2% (1H17: 61.9%). In addition to reserve release and peril movements, it included a reduced favourable risk free discount rate adjustment of \$30m (after inclusion of foreign exchange effects), down from \$89m in 1H17.

Reserve Releases

The 1H18 net claims expense includes \$121m of prior period reserve releases, equivalent to 2.8% of NEP (1H17: 3.7%), compared to IAG's initial FY18 guidance of at least 2% of NEP.

This outcome is lower than the corresponding period in FY17, and comprises:

- Higher releases in Australia from a mixture of long tail CTP and commercial classes, predominantly from 2015 and prior accident years; and
- Over \$50m of reserve strengthening in New Zealand from a mixture of professional indemnity and prior year storm cost development factors.

Excluding the New Zealand strengthening, reserve releases would have exceeded 4% of NEP in 1H18.

The level of 1H18 reserve releases and the currently particularly benign inflationary conditions have caused IAG to reassess FY18 expectations. This has seen full year guidance increase from 'at least 2% of NEP' to 'around 3% of NEP.'

	1H17	2H17	1H18
RESERVE RELEASES	A\$m	A\$m	A\$m
Reserve releases	155	302	121
Impact on insurance margin	3.7%	7.2%	2.8%

As embodied in its underlying margin definition, it remains IAG's belief that long term reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods. This reflects IAG's approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years.

Natural Perils

Net natural peril claim costs in 1H18 amounted to \$262m, which was \$78m lower than the allowance for the period. This contrasts with a net overrun against allowance of similar scale in 1H17. The net effect of natural perils (after allowance) was a favourable margin movement of 370bps compared to 1H17.

Lower loss ratio driven by relatively benign net perils experience

Higher than expected reserve releases – 2.8% of NEP

Net natural peril claim costs \$78m below allowance

4. GROUP RESULTS

	1H17 A\$m	2H17 A\$m	1H18 A\$m
NATURAL PERILS			
Net natural peril claim costs	(420)	(402)	(262)
Natural peril allowance	340	340	340
Impact on insurance profit	(80)	(62)	78
Impact on insurance margin	(1.9%)	(1.4%)	1.8%

1H18 benefited from approximately \$120m of reinsurance protection under the calendar 2017 aggregate cover. This limited IAG's exposure to \$20m on three individual events, most notably the Melbourne hailstorm in December 2017.

1H18 NET NATURAL PERIL CLAIM COSTS BY EVENT	A\$m
Queensland and NSW thunderstorms (October 2017)*	20
NSW storms and New Zealand South Island low (November 2017)*	20
Melbourne hailstorm (December 2017)*	20
Severe thunderstorms - SE Queensland, NW NSW (December 2017)	16
Severe thunderstorms - Queensland and NSW (December 2017)	16
Other events (<\$15m)	170
Total	262

* Net of reinsurance recoveries.

1H17 net natural peril claim costs included \$117m in respect of the Kaikoura earthquake in New Zealand, in November 2016.

Attritional events (below \$15m in size) in 1H18 were slightly higher than 1H17 (\$156m).

EXPENSES

Total net operating expenses (commission and underwriting) were \$1,096m, compared to \$1,085m in 1H17. On a pre-quota share basis, gross expenses increased by just over 1%.

The reported expense ratio improved marginally to 25.5% (1H17: 25.6%), while on an ex-leaves basis the administration ratio was 13.4% (1H17: 13.3%). IAG's commission ratio of 9.8% was identical to 1H17.

	1H17 A\$m	2H17 A\$m	1H18 A\$m
EXPENSES			
Gross commission expense	526	539	534
Gross underwriting expense	912	923	920
Total gross expenses	1,438	1,462	1,454
Reinsurance commission revenue	(353)	(362)	(358)
Total net expenses	1,085	1,100	1,096

OPTIMISATION PROGRAM

The 1H18 results housed a small net negative from the company-wide optimisation program. This is reflected in both the claim and expense lines, and to a modest extent in fee income.

It remains IAG's expectation that a broadly neutral impact will be felt in FY18 before meaningful net benefits emerge in FY19 and beyond. The overall program continues to progress in line with plan, as related implementation costs are borne 'above-the-line'.

Small improvement in expense ratio

Optimisation tracking to plan – small negative impact in 1H18

4. GROUP RESULTS

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H18 was \$127m, compared to \$37m in 1H17. This outcome includes:

- An unrealised capital loss of \$16m, compared with an equivalent loss of nearly \$90m in 1H17;
- A much-increased positive contribution of \$47m from the narrowing of credit spreads (1H17: \$5m); and
- An adverse foreign exchange impact of \$14m, primarily from the hedge associated with reinsurance recoveries held by the Singapore-based captive in respect of the New Zealand earthquakes in FY11. The equivalent impact in 1H17 was a modest negative.

After allowance for the factors outlined above, the average yield achieved in 1H18 was slightly lower than that of 1H17.

The portfolio is aligned with the average weighted duration of IAG's claims liability, which is around two years.

SHARE OF ASSOCIATES

IAG's Asian interests represent the vast majority of the share of earnings from associates, and in 1H18 comprised:

- A 49% interest in the Malaysian joint venture, AmGeneral Holdings; and
- A 26% interest in SBI General Insurance Company in India.

The combined contribution from the Asian associates was a profit of \$17m (1H17: \$9m), after allocation of \$7m of regional support and development costs. IAG's overall share of associates was a profit of \$19m (1H17: \$9m).

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of \$138m, a greater than 30% increase on 1H17 (\$105m). This was driven by a strong equity market performance, with the broader Australian index (S&P ASX200 Accumulation) delivering a return of 8.4% and the MSCI World Total Return Index (AUD Hedged) 10.0%.

At 31 December 2017, the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 53% (FY17: 47%).

TAX EXPENSE

IAG reported a tax expense of \$213m in 1H18 (1H17: \$109m), representing an effective tax rate (pre-amortisation and impairment) of 24.7% (1H17: 17.3%).

This outcome was significantly closer to the prevailing Australian corporate rate of 30% and reflects the absence of favourable reinsurance recovery-related effects which were applicable to IAG's captive vehicle in Singapore in 1H17.

Contributory elements reconciling the 1H18 effective tax rate to the Australian corporate rate are:

- Differences in tax rates applicable to IAG's foreign operations, principally in New Zealand, Singapore and Malaysia; and
- Franking credits generated from IAG's investment portfolio.

Slightly lower average yield on technical reserves

Share of associates largely derived from Asian interests

Higher shareholders' funds income reflects strong equity market performance

Higher effective tax rate of 24.7% in absence of favourable reinsurance recovery effects

4. GROUP RESULTS

NON-CONTROLLING INTERESTS

The \$18m non-controlling interests in IAG's profit compares to \$45m in 1H17. The vast majority of the non-controlling interests is attributable to RACV's 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT form part of the Australia Division.

The lower non-controlling interests reflect a weaker IMA result impacted by increased net natural peril claim costs. IMA purchases its reinsurance cover on a financial year basis, as opposed to IAG's calendar year approach, and had not drawn on its aggregate protection by 31 December 2017.

EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H18 was 23.32 cents per share (cps), an increase of 25.3% compared to 1H17. 1H18 basic EPS was calculated on lower weighted average equity on issue of approximately 2,363m shares (excluding treasury shares), reflecting the full impact of the off-market buyback which was completed in 1H17. On a diluted basis, EPS was 22.60cps (1H17: 17.92cps).

Cash EPS was 26.66cps, an increase of 33.4% compared to 1H17.

	Shares (m)
ORDINARY ISSUED CAPITAL	
Balance at the beginning of the financial year	2,367.5
Balance at the end of the half year	2,367.5
Average weighted shares on issue	2,367.5
Less: Treasury shares held in trust	(4.8)
Average weighted shares on issue (excluding treasury shares)	2,362.7

Cash earnings are used for targeted ROE and dividend payout policy purposes, and are defined as:

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles; and
- Excluding any unusual items.

	1H18 A\$m
CASH EARNINGS	
Net profit after tax	551
Acquired intangible amortisation and impairment	79
Cash earnings	630
Dividend payable	331
Cash payout ratio	52.5%

DIVIDEND

The Board has determined to pay a fully franked interim dividend of 14.0 cents per ordinary share (1H17: 13.0cps). The interim dividend is payable on 29 March 2018 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 21 February 2018.

The interim dividend equates to a payout ratio of 52.5% of cash earnings in 1H18. IAG's dividend policy is to pay out 60-80% of cash earnings on a full year basis.

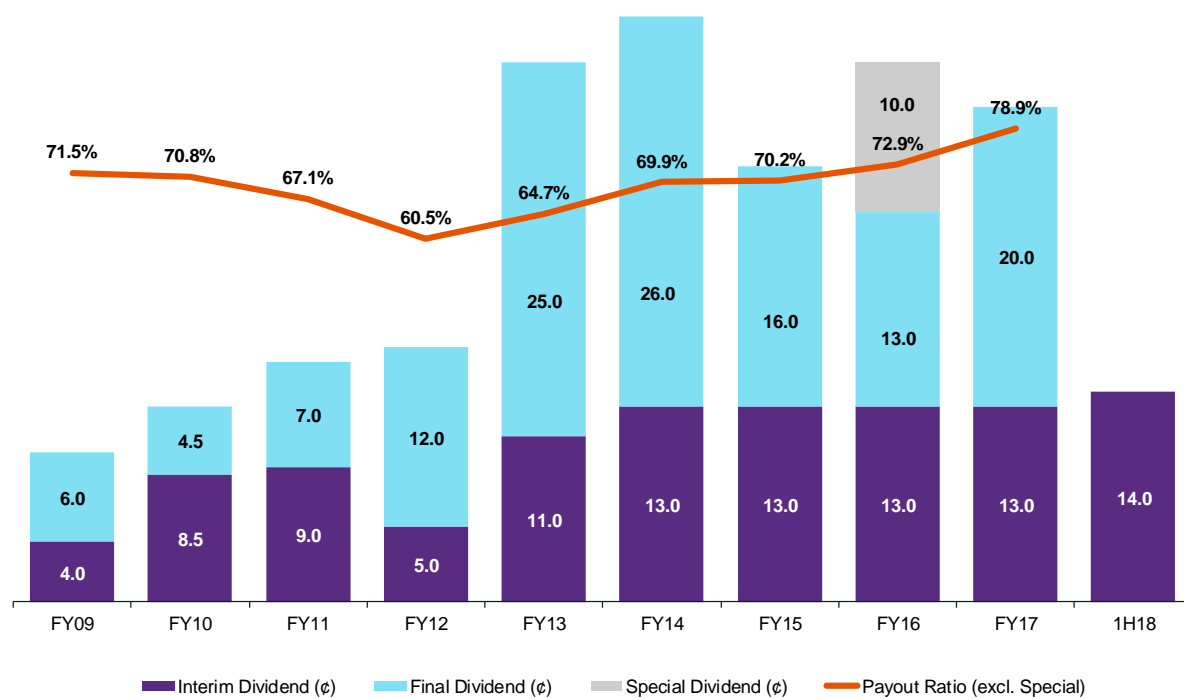
Lower non-controlling interests reflects weaker IMA result

Greater than 33% increase in cash EPS to 26.66 cents

7.7% increase in interim dividend – 52.5% of cash earnings

4. GROUP RESULTS

DIVIDEND HISTORY – FY09-1H18



As at 31 December 2017, and after allowance for payment of the interim dividend, IAG's franking balance was \$137m, giving it the capacity to fully frank a further \$320m of distributions.

The dividend reinvestment plan (DRP) will operate for the interim dividend for shareholders registered for the DRP as at 5pm on 22 February 2018. The issue price per share for the interim dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at:

<http://www.iag.com.au/shareholder-centre/dividends/reinvestment>

RETURN ON EQUITY

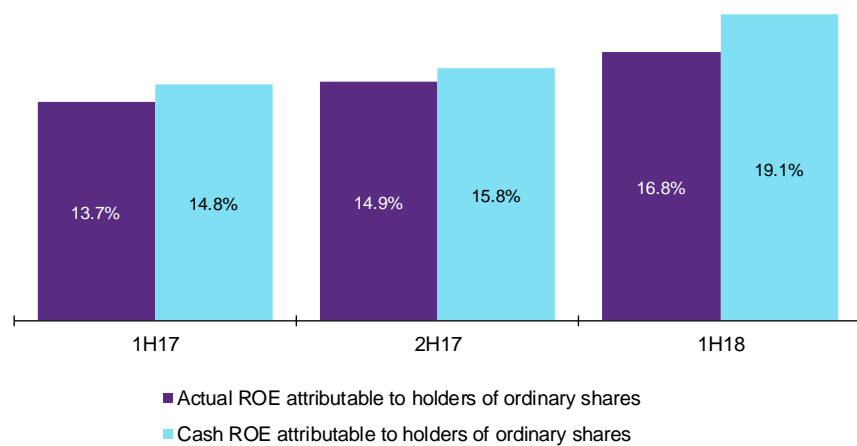
IAG targets a cash ROE of at least 1.5 times its weighted average cost of capital (WACC) on a through-the-cycle basis. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identified intangibles and unusual items.

IAG's current long term cost of capital is approximately 10%, equating to a cash ROE target of approximately 15%. In 1H18, IAG reported a cash ROE of 19.1% (1H17: 14.8%).

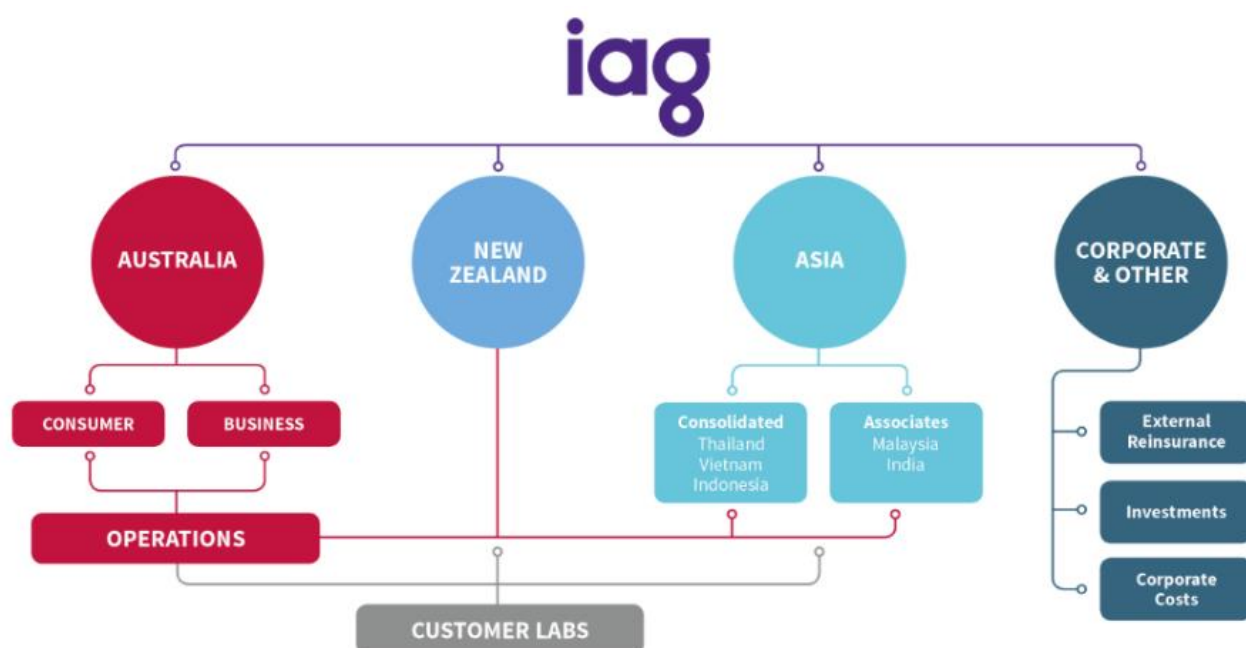
Cash ROE of 19.1%

4. GROUP RESULTS

RETURN ON EQUITY (ANNUALISED)



5. 1H18 SEGMENTAL OVERVIEW



1H18 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A\$m	Consumer A\$m	Business A\$m	New Zealand A\$m	Asia A\$m	Corporate & Other A\$m	Total A\$m
Gross written premium	4,453	3,052	1,401	1,190	185	6	5,834
Gross earned premium	4,612	3,092	1,520	1,160	186	8	5,966
Reinsurance expense	(1,285)	(878)	(407)	(323)	(50)	(5)	(1,663)
Net earned premium	3,327	2,214	1,113	837	136	3	4,303
Net claims expense	(1,995)	(1,345)	(650)	(507)	(86)	(3)	(2,591)
Commission expense	(291)	(122)	(169)	(95)	(34)	(1)	(421)
Underwriting expense	(536)	(315)	(221)	(117)	(22)	-	(675)
Underwriting profit/(loss)	505	432	73	118	(6)	(1)	616
Investment income on technical reserves	120	77	43	1	4	2	127
Insurance profit/(loss)	625	509	116	119	(2)	1	743
Profit/(loss) from fee based business	5	-	5	-	-	(5)	-
Share of profit from associates	2	-	2	-	17	-	19
Total divisional results	632	509	123	119	15	(4)	762

Insurance Ratios

Loss ratio	60.0%	60.7%	58.4%	60.6%	63.2%		60.2%
Expense ratio	24.8%	19.7%	35.1%	25.4%	41.2%		25.5%
Commission ratio	8.7%	5.5%	15.2%	11.4%	25.0%		9.8%
Administration ratio	16.1%	14.2%	19.9%	14.0%	16.2%		15.7%
Combined ratio	84.8%	80.4%	93.5%	86.0%	104.4%		85.7%
Insurance margin	18.8%	23.0%	10.4%	14.2%	(1.5%)		17.3%
Underlying insurance margin	11.4%	13.9%	6.5%	17.4%			12.6%

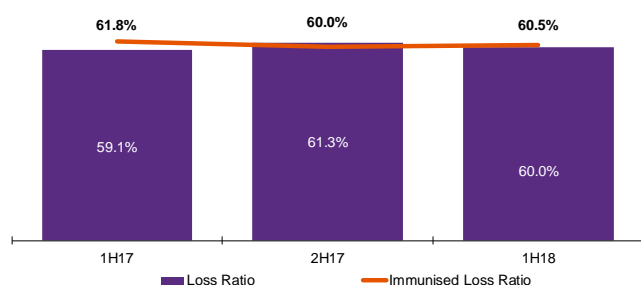
6. AUSTRALIA

FINANCIAL PERFORMANCE

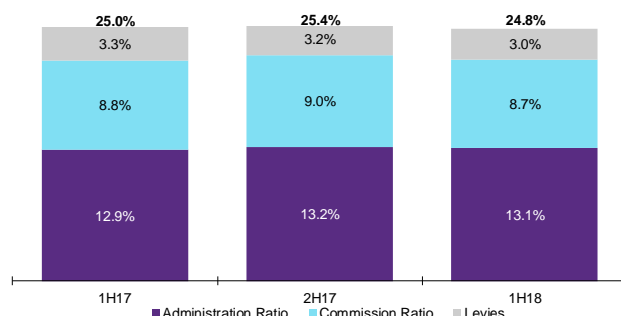
AUSTRALIA	1H17 A\$m	2H17 A\$m	1H18 A\$m
Gross written premium	4,483	4,598	4,453
Gross earned premium	4,530	4,487	4,612
Reinsurance expense	(1,254)	(1,225)	(1,285)
Net earned premium	3,276	3,262	3,327
Net claims expense	(1,936)	(1,998)	(1,995)
Commission expense	(287)	(295)	(291)
Underwriting expense	(530)	(535)	(536)
Underwriting profit	523	434	505
Investment income on technical reserves	19	169	120
Insurance profit	542	603	625
Profit/(loss) from fee based business	2	(30)	5
Share of profit/(loss) from associates	-	(1)	2
Total divisional result	544	572	632
Insurance Ratios	1H17	2H17	1H18
Loss ratio	59.1%	61.3%	60.0%
Immunised loss ratio	61.8%	60.0%	60.5%
Expense ratio	25.0%	25.4%	24.8%
Commission ratio	8.8%	9.0%	8.7%
Administration ratio	16.2%	16.4%	16.1%
Combined ratio	84.1%	86.7%	84.8%
Immunised combined ratio	86.8%	85.4%	85.3%
Insurance margin	16.5%	18.5%	18.8%
Underlying insurance margin	12.2%	10.8%	11.4%

INSURANCE RATIOS

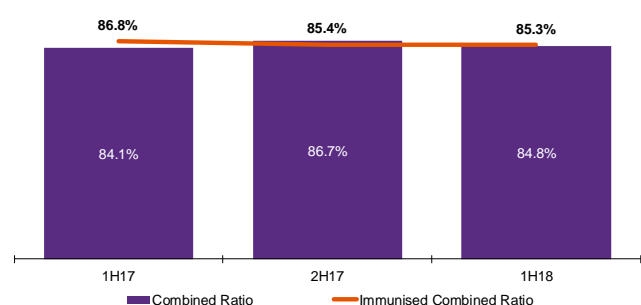
LOSS RATIO



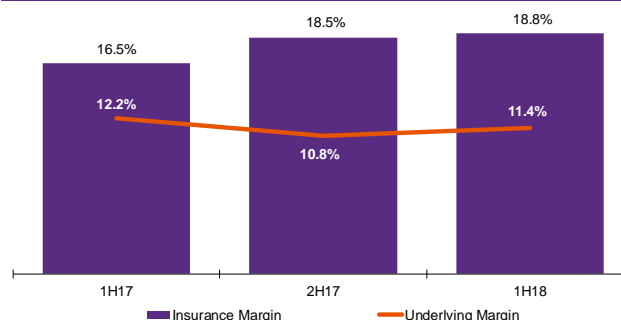
EXPENSE RATIOS



COMBINED RATIO



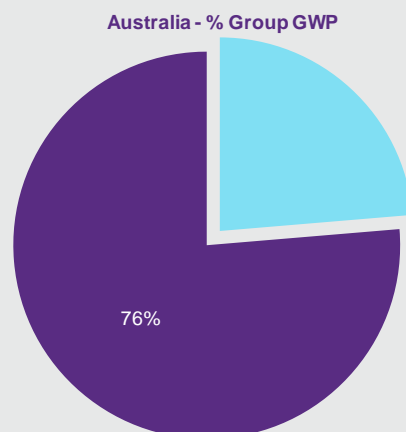
INSURANCE MARGIN



6. AUSTRALIA

EXECUTIVE SUMMARY

- IAG has market-leading shares in personal and commercial insurance lines in Australia, with products sold under brands including NRMA Insurance, CGU, WFI, SGIO and SGIC
- Omni-channel offerings, through call centres, branches, digital and intermediaries: personal lines predominantly sold directly, while commercial lines mainly pass through intermediaries
- Like-for-like 1H18 GWP growth of nearly 3%, driven by ongoing rate increases in motor, home and commercial lines
- Marginally lower reported GWP after NSW CTP reform, ESL collection and discontinued business impacts
- Higher 1H18 underlying profitability (vs 2H17) as rate increases addressed motor claims inflation and commercial large losses reverted to normal
- Reported margin of 18.8% boosted by significant reserve releases from CTP, workers' compensation and liability classes
- Modest FY18 GWP growth expected on lower NSW CTP prices (post-reform) and Swann's ceased participation in the motorcycle dealer channel
- Positive underlying margin outlook as rate increases earn through



PREMIUMS

Australia reported marginally lower GWP of \$4,453m in 1H18 (1H17: \$4,483m), however like-for-like growth was nearly 3% after allowance for impacts from discontinued business areas, ESL collection changes and the influence of NSW CTP reform.

This outcome includes:

- Solid rate-driven growth of 4.9% in short tail motor, largely in response to claims inflation pressures;
- Ongoing average rate momentum of ~5% in commercial lines, as targeted increases were applied in most classes;
- A \$23m reduction in GWP from exiting motor dealership and motorcycle activities;
- Significantly lower NSW CTP GWP, with the combination of rate reductions and premium refunds accounting for nearly \$80m, in response to scheme reform; and
- Lower ESL-related GWP, of nearly \$50m, following its reintroduction in NSW.

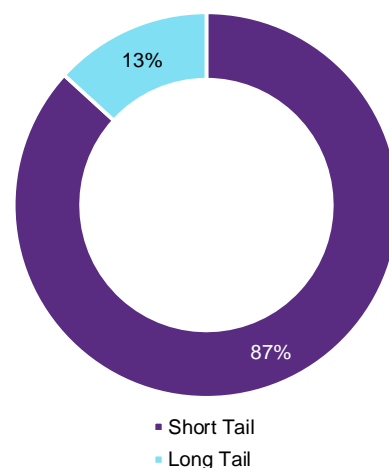
Consumer

IAG is the largest personal lines insurer in Australia, offering short tail motor and home products across the country under a range of brands, supplemented by long tail CTP offerings in NSW, the ACT and South Australia.

Consumer GWP in 1H18 amounted to \$3,052m, which was flat compared to 1H17 (\$3,060m). Excluding the effects of ESL and NSW CTP-related changes, like-for-like Consumer GWP growth was over 3%.

Like-for-like GWP increase of nearly 3% - ongoing rate increases in motor and SME

CONSUMER 1H18 GWP - TAIL



6. AUSTRALIA

Short tail personal lines GWP represented over 86% of Consumer GWP, with nearly 97% of this derived from motor and home classes. Compared to 1H17, overall short tail GWP growth of 2.3% was predominantly rate-driven, and included a near-\$30m drag from lower ESL-related GWP.

CONSUMER GWP	1H17	2H17	1H18	GWP Growth 1H18 vs 1H17
Motor	1,354	1,435	1,420	4.9%
Home	1,139	1,066	1,140	0.1%
Niche & Other	96	87	89	(7.3%)
Total Short Tail	2,589	2,588	2,649	2.3%
Long Tail	471	471	403	(14.4%)
Total GWP	3,060	3,059	3,052	(0.3%)

IAL (via the intermediated channel in partnership with Steadfast) continued to deliver growth of double digit proportions, albeit off a considerably smaller base than those of the major brands. Tougher conditions were experienced by the SGIO brand in Western Australia, where GWP was down. While Coles Insurance GWP was slightly lower, positive margin momentum was achieved through improved risk selection and pricing.

Motor GWP increased by 4.9%, compared to 1H17, slightly lower than the growth achieved in 2H17. The majority of this was rate-driven, as higher prices were implemented to counter increased claim costs. This was augmented by modest volume growth, notably in Victoria.

Home GWP was flat, compared to 1H17, from the combination of:

- Modest rate increases to match similar-sized claims inflation;
- Slightly lower volumes, with growth in Victoria offset by weakness elsewhere, notably in Western Australia and NSW; and
- Lower ESL-related GWP. Excluding ESL effects, home GWP growth was 2.9%.

Due and paid renewal levels for both motor and home have remained high, with slight improvements seen in most portfolios.

1H18 GWP from niche and other short tail lines, comprising boat, caravan, classic car, credit card, warranty and other specialty products, was over 7% lower than 1H17. This reflected a significant price reduction in consumer credit insurance as a result of a product restructure.

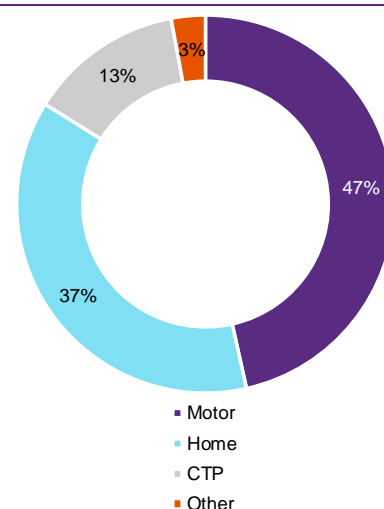
On 1 November 2017 IAG entered into an agreement to sell its retail warranty business to The Warranty Group. Transition to the new owner is expected to result in a reduction in 2H18 GWP of over \$10m.

In Consumer, the main brands' online sales channel continued to register substantial growth throughout 1H18, of over 20%. NRMA Insurance conducted approximately 26% of new business sales and 27% of renewals online.

Long tail (CTP) GWP decreased by over 14%, compared to 1H17, largely owing to rate reductions and refunds associated with NSW scheme reform.

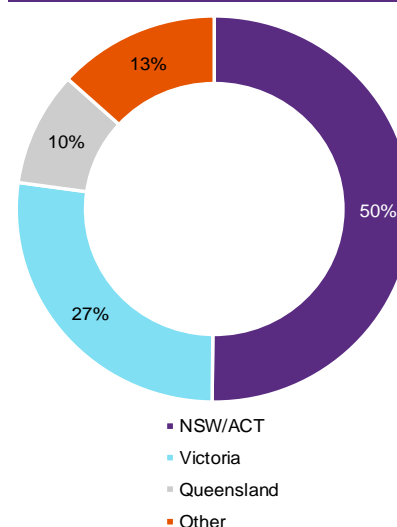
Changes to legal cost regulations enacted in late calendar 2016 resulted in lower claim frequency under the old NSW scheme, warranting average rate reductions of 4% in July 2017 and a further 4% in September 2017.

CONSUMER 1H18 GWP - CLASS



Motor GWP growth of 4.9%, largely rate-driven

CONSUMER 1H18 SHORT TAIL GWP – STATE/TERRITORY



CTP GWP reduction influenced by NSW scheme reform

6. AUSTRALIA

Broader reforms to the NSW scheme took effect from 1 December 2017. Changes in scheme design, including defined benefits for low severity injuries and access to common law for the most seriously injured, are expected to reduce future claim costs. In response, IAG reduced its average NSW CTP premiums by an additional 22% from 1 December 2017.

The combination of these rate reductions, together with refunds (\$57m in 1H18) due on policies in force prior to 1 December 2017, reduced reported GWP by nearly \$80m, compared to 1H17. A \$24m reduction in GWP was recognised in FY17 for anticipated refunds for policies on risk at 30 June 2017 which overlapped with the new scheme.

NSW CTP volumes grew by over 3% compared to 1H17, as market share began to pick up towards the end of 2H17 after an extended period of deliberate reduction in exposure to less profitable business. This has seen IAG's share of NSW CTP registrations (on a 12-month rolling average basis) remain steady at 32.4% (FY17: 32.3%).

CTP GWP in 1H18 also included:

- Higher GWP in the ACT, where volumes improved following a further 1% rate reduction from July 2017. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) has increased to 58%, supported by an improved retention rate; and
- A 4% increase in South Australian GWP following the annual CPI rate increase of 3% implemented by the regulator on 1 July 2017. IAG's South Australian CTP market share remains fixed at 20% until FY19.

Business

IAG sells a range of commercial insurance products across Australia under the CGU, WFI, RACV, SGIO and SGIC brands, as well as niche products sold through brands such as Swann Insurance. IAG's Business offering has a strong SME emphasis, and a leading market share in rural areas.

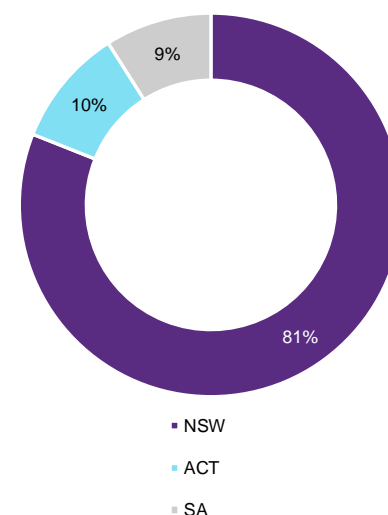
GWP	1H17	2H17	1H18	GWP Growth 1H18 vs 1H17
Short Tail	1,070	1,061	1,032	(3.6%)
Long Tail	353	478	369	4.5%
Total GWP	1,423	1,539	1,401	(1.5%)

Business GWP declined slightly in 1H18 to \$1,401m, compared to 1H17 (\$1,423m). Like-for-like Business GWP growth was of the order of 1.4%, after allowance for discontinued Swann Insurance activities and an adverse ESL-related effect.

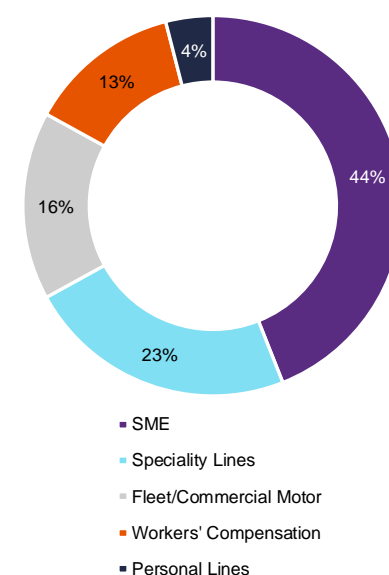
The overall Business GWP outcome included:

- A continuation of targeted rate increases across most business classes, and notably in commercial motor and packaged product portfolios;
- Underwriting agency-derived growth, primarily from NTI;
- Retention levels slightly lower than the same period last year, however higher than expected;
- Lower new business volumes;
- An approximately \$23m reduction from divested or discontinued Swann Insurance activities; and
- An \$18m reduction in ESL-related GWP, following its reintroduction in 1H18.

CONSUMER 1H18 LONG TAIL
GWP – STATE/TERRITORY



BUSINESS 1H18 GWP - CLASS



6. AUSTRALIA

A continued focus on underwriting discipline has seen targeted portfolio reviews result in average rate increases of approximately 5% in 1H18 (SME ~7%) and some shedding of poorly performing business volumes.

The packaged business portfolio experienced flat GWP compared to 1H17. Pricing initiatives to improve the underlying profit of this portfolio commenced at the beginning of FY17, and have adversely impacted volumes. By the conclusion of 1H18, these were starting to stabilise.

The direct market continues to perform well, with volume growth of around 4% supplemented by modest rate increases. It represented 24% of Business' GWP in 1H18.

Workers' compensation GWP was marginally down compared to 1H17, reflecting the residual effect of remediation activity which was completed by the end of FY17. There have been early signs of improvement in the economy in Western Australia and new business remains difficult to win, with volumes relatively stable compared to 1H17.

Strata GWP was similar to 1H17. The market remains highly competitive with many competitors focused on the retention of existing business. Despite lower volumes, actions to improve profitability via higher pricing have kept GWP stable.

The Swann Insurance motor dealer, finance broker and fleet network business was divested at the beginning of August 2016. A further decision was made in July 2017 to cease participation via the motorcycle dealer channel and focus entirely on selling products via direct channels. The combined impact on 1H18 was a reduction in GWP of \$23m compared to 1H17, with a full year impact of up to \$60m expected.

Underwriting agencies delivered GWP growth of 27%, primarily from NTI. Excluding the marine portfolio transferred to NTI in 2H17, underlying growth was 12%.

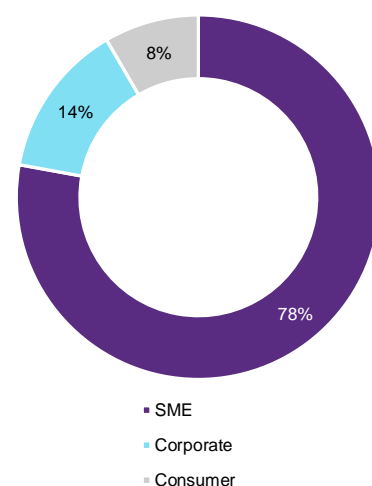
Long tail classes represented over 26% of Business' GWP in 1H18 (1H17: 25%). The increase reflects lower short tail GWP from Swann and ESL changes, as well as strong growth in professional risks.

Customer Initiatives

During 1H18, the Australia Division continued to enhance its product offering, strengthen its partnerships and improve the quality of its customer service. Additionally, the main brands advanced their digital sales and service functionality. Developments included:

- Announcement of a new strategic alliance between WFI and Rural Bank, together with the extension of the existing partnership with Bendigo and Adelaide Bank;
- Launch of a new five-year distribution partnership between CGU and Sydney Credit Union for Consumer;
- Launch of the #YouOwnIt campaign in September 2017, supporting CGU's direct business strategy, as well as generating benefits through increased brand awareness. Since the launch of the campaign, Business has seen an increase in policies from both the call centre and digital channels; and
- Introduction of customer-driven policy changes including 'not-at-fault' car hire benefits.

**BUSINESS 1H18 GWP –
MARKET SEGMENT**



6. AUSTRALIA

The Australian brands' strong levels of service and partnership capabilities have continued to be reflected in industry recognition:

- In August 2017, NRMA was voted 'Direct General Insurance Company of the Year' in a survey conducted by the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) and Asia Insurance Review; and
- In September 2017, CGU was voted 'General Insurer of the Year' for the third year in a row in the National Insurance Brokers Association Insurer Survey by Brokers.

REINSURANCE EXPENSE

Australia's reinsurance expense was \$1,285m in 1H18, compared to \$1,254m in 1H17. The 2.5% increase comprises:

- An increase in quota share entitlements, in line with higher gross earned premium; and
- A higher underlying reinsurance expense, reflecting aggregate growth, increased cover and some offset from the lower rate realised for the calendar 2017 catastrophe renewal.

CLAIMS

Australia reported a lower immunised loss ratio of 60.5% in 1H18 (1H17: 61.8%). This improvement was driven by the combination of:

- Lower net natural peril claim costs;
- Higher prior period reserve releases;
- An improvement in long tail portfolio current year performance, notably CTP;
- Premium rate increases successfully countering the effect of increased average short tail claim costs, notably in Consumer; and
- A return to more normal large loss levels in the commercial property portfolio.

The reported loss ratio of 60.0% was slightly higher than that of 1H17 (59.1%), and contained a favourable risk-free discount rate adjustment of \$17m, compared to a favourable adjustment of \$88m in 1H17.

Reserve Releases

Reserve releases of \$175m were over 10% higher than those reported in 1H17 (\$159m) and well above long term expectations. These were predominantly sourced from the NSW and ACT CTP portfolios, as well as commercial long tail classes, and followed further favourable experience against existing underlying assumptions for claim size and inflation. The majority of the releases are in respect of 2015 and prior accident years.

1H18 reserve releases were 5.3% of NEP, compared to 4.9% in 1H17. The equivalent figure for Consumer is 6.1% (1H17: 6.3%), reflecting CTP-related releases, and for Business 3.7% (1H17: 2.1%) derived from workers' compensation and liability classes.

	1H17 A\$m	2H17 A\$m	1H18 A\$m
RESERVE RELEASES			
Australia	159	299	175
Impact on insurance margin	4.9%	9.2%	5.3%

Further industry recognition for key brands

Higher underlying reinsurance expense includes aggregate growth and increased cover

Premium rate increases matching short tail claim cost pressures

Significant reserve releases from CTP

6. AUSTRALIA

Natural Perils

Losses from natural perils (net of reinsurance) totalled \$239m, which was \$57m lower than the period's allowance. This outcome was assisted by significant protection from IAG's aggregate cover in 1H18, notably in respect of the Melbourne hailstorm event in December 2017 which was capped at a net cost of \$20m.

Secondary peril events in the period included:

- Queensland and NSW thunderstorms in October 2017;
- NSW storms in November 2017; and
- Two severe thunderstorm events in NSW and Queensland in late December 2017.

Natural perils experience in Consumer resulted in a \$60m shortfall against allowance, translating to a favourable margin impact of 2.7% (1H17: 2.0% favourable). The equivalent outcome in Business was a minor overrun against allowance of \$3m, reflecting a differing geographical and event exposure mix. This equated to a negative margin effect in Business of only 0.2% (1H17: 2.9% adverse).

NATURAL PERILS	1H17	2H17	1H18
Australia	A\$m	A\$m	A\$m
Net natural peril claim costs	(297)	(337)	(239)
Natural peril allowance	307	307	296
Impact on insurance profit	10	(30)	57
Impact on insurance margin	0.3%	(0.9%)	1.7%

Claims Experience

Australia's underlying claims ratio (excluding reserve releases, natural perils and discount rate adjustments) was 58.6% (1H17: 57.6%). This embraced:

- A flat outcome in Consumer compared to 1H17, and an 80bps improvement against 2H17; and
- A higher ratio in Business compared to 1H17, but similar to 2H17.

Short tail Consumer claims experience in 1H18 was characterised by:

- A modest rise in average motor collision costs, including higher total losses and increased credit hire-related expense;
- Higher home average claim costs, particularly in relation to high value fire and water claims; and
- Relatively stable home and motor frequency.

Higher motor premium rates in 1H18 have kept pace with ongoing underlying claim inflation. Further rate increases have been implemented in home to address claim cost pressures, which have increased slightly during 1H18.

Improvement in the customer and quality outcomes from the motor repair relationship model is continuing to cushion repair cost pressures. IAG has maintained the ability of customers to choose their own repairer under its premium brands, however from September 2017 a small premium payment is required to maintain that choice. This has seen reduced uptake of repairer choice without adverse impact on retention, and a corresponding increase in volumes directed at IAG's preferred repairer network.

IAG is also addressing the issue of increased credit hire activity and associated cost inflation. From September 2017, IAG introduced car hire for 'not-at-fault' drivers as a standard policy feature.

Favourable net natural peril experience, assisted by aggregate protection

Improved underlying claims performance compared to 2H17

6. AUSTRALIA

Increased customer use of preferred supplier networks occurred in 1H18, rising to in excess of 70% for motor, while home was below 50%. Both offer significant scope for future higher uptake.

Large losses in Business short tail property portfolios were lower than those observed in FY17 and more reflective of longer term historical averages, while long tail classes saw favourable claims experience which included positive impacts from portfolio remediation in liability. Commercial long tail frequency was broadly flat.

NSW CTP continued to see a reduction in small claim frequency following the regulatory cap placed on legal costs for CTP claims made after 1 November 2016. IAG has remained actively involved in the industry-wide response to fraudulent claims.

EXPENSES

The division's reported expenses totalled \$827m in 1H18, compared to \$817m in 1H17. The small increase includes:

- A small negative impact from optimisation initiatives, as benefits were slightly exceeded by related implementation costs; and
- Modest CPI-style underlying cost inflation.

The reported expense ratio improved to 24.8% (1H17: 25.0%), and on an ex-levies basis the administration ratio increased slightly to 13.1%, compared to 1H17. Equivalent ratios in Consumer registered modest improvement against 1H17, while Business ratios were slightly higher, although an improvement on 2H17.

OPERATIONS

Since July 2017, Operations has been part of the single Australia Division. It underpins all of the activities that support and drive IAG's insurance businesses, including technology, claims, procurement and supply chain, and is charged with execution of IAG's operational partnering initiatives and the implementation and governance of its optimisation program.

Specific initiatives progressed in 1H18 include:

- Continued delivery of the operational partnering program, including:
 - Completion of the second tranche of transition to offshore partners, covering elements of Consumer sales and service, Business distribution, claims and finance across Australia and New Zealand;
 - Commencement of the third tranche of transition; and
 - Rollout of an operational partnering excellence framework to build organisational capability;
- Ongoing consolidation and simplification of IAG's core technology systems, with all motor claims in Australia now lodged on the Guidewire platform; and
- Implementation of the agreed technology strategy and roadmap, including:
 - Delivery of critical business functional capabilities to support NSW CTP scheme reform;
 - Creation of a dedicated decommissioning team;
 - Development of technology strategy acceleration options and risk mitigation activities; and
 - Creation of critical enabling functions to support strategic partnering.

Slightly improved expense ratio of 24.8%

Optimisation program tracking to plan

6. AUSTRALIA

During the remainder of FY18 Operations will continue to focus on the delivery of core initiatives commenced in FY17, including:

- The transition of targeted activities (including functions in claims, Consumer distribution, Business distribution, finance and risk) to access the capability of selected service partners and leverage their global expertise to optimise inefficient business processes;
- Largely completing the transition of IAG's claims platforms onto a single version of Guidewire's ClaimCenter by the end of FY18, covering:
 - All Australian property and motor claims;
 - Australian liability claims; and
 - All New Zealand commercial claims;
- Streamlining of technology infrastructure and applications;
- Commencement of a program of work focused on the digitisation of the customer's motor claims journey;
- Optimisation of IAG's supply chain network to support world class customer experiences through operational excellence; and
- Embedding leadership capability and systems of work that support and drive the right culture at IAG.

INSURANCE PROFIT

Australia reported an insurance profit of \$625m, compared to \$542m in 1H17. This equates to a higher reported insurance margin of 18.8% compared to 1H17 (16.5%), which includes the net effect of:

- Higher prior period reserve releases;
- Lower net natural peril claim costs; and
- A higher favourable credit spread impact of \$47m.

Australia's underlying performance was sound, with an underlying margin of 11.4% representing an improvement on 2H17 (10.8%), and a slightly lower outcome against 1H17 (12.2%). Contributory factors to the improvement against 2H17 were:

- Reduced pressure on motor profitability from higher claim costs, as increased rates earned through;
- Increased flow-through impact of average rate increases across commercial portfolios;
- Reversion to a more normal large loss experience in commercial property classes, down from the elevated level witnessed in FY17;
- Maintenance of the improved current year profitability in NSW CTP seen in 2H17, reflecting lower small claim frequency; and
- Some offset from increased expenses.

AUSTRALIA INSURANCE MARGIN IMPACTS	1H17 A\$m	2H17 A\$m	1H18 A\$m
Reserve releases	159	299	175
Natural perils	(297)	(337)	(239)
Natural peril allowance	307	307	296
Credit spreads	5	15	47
Reserve releases	4.9%	9.2%	5.3%
Natural perils	(9.1%)	(10.3%)	(7.2%)
Natural peril allowance	9.4%	9.4%	8.9%
Credit spreads	0.2%	0.5%	1.4%

Transition to single claims platform expected to be largely complete by end of FY18

Underlying margin of 11.4% in 1H18, demonstrating improvement against low of 2H17

6. AUSTRALIA

FEE BASED INCOME

The principal source of fee income is IAG's role as agent under both the NSW and Victorian workers' compensation schemes, which are underwritten by the respective state governments.

In March 2017, IAG decided to withdraw from the NSW scheme by 31 December 2017 after assessment of associated risks and returns. Redundancy costs associated with the exit were fully provided for in FY17.

Total net income from fee based operations in 1H18 was a profit of \$5m, compared to \$2m in 1H17.

The 1H18 result contained \$10m of prior period fee income for the Victorian scheme, which was \$5m higher than 1H17. This related to a new incentive fee, and the scheme is on track for improved performance in FY18. This is the second year of a five-year contract in the Victorian scheme.

Excluding prior period income, the underlying result was \$2m lower than 1H17, reflecting:

- Lower returns available from the NSW scheme in the current year; and
- Lower Victorian scheme income owing to reduced market share following competitor activity.

A secondary source of fee income is the division's interest in authorised representative brokers.

MARKET REGULATION AND REFORM

On 30 November 2017, the Australian Government announced the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, with the Commission formally established on 14 December 2017. The Government has announced that the Royal Commission's establishment "will not defer, delay or limit any proposed or announced policy, legislation or regulation that is currently being implemented." As such, the Royal Commission will not delay a number of ongoing public policy developments and legislative Reviews in 2018 impacting the insurance industry.

In December 2017, the Australian Government responded to the Northern Australia Insurance Premiums Taskforce Report, and the Senate Economics References Committee Inquiry in relation to the cost of home, strata and car insurance. The Government agreed with the Taskforce conclusion that mitigation activities to reduce the risk of damage from cyclones are the only way to reduce premiums on a sustainable basis, and the Government will not intervene directly in the insurance market. In addition:

- The Government called on the Insurance Council of Australia to expedite work on reforming the General Insurance Code of Practice;
- The Government is extending the unfair contract term provisions to contracts of insurance with proposals to be released in early 2018;
- The Government is tasking the Australian Securities and Investments Commission (ASIC) with developing options to improve consumer understanding of insurance products as part of the development of a financial literacy strategy, and to work with industry on its ability to provide guidance to consumers on their insurance needs; and
- The Government is tasking Treasury with developing proposals to improve consumers' understanding and access to information through better transparency and enhanced disclosure practices in the insurance sector.

Improved fee based result, assisted by higher incentive and service fees

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

6. AUSTRALIA

In December 2017, Treasury released the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018* for consultation, with submissions due 9 February 2018. The reforms respond to two recommendations of the Financial System Inquiry to introduce design and distribution obligations to ensure financial products are targeted at the right people, and provide a temporary product intervention power for ASIC when there is a risk of significant consumer detriment.

The Government has introduced legislation into Parliament to establish the Australian Financial Complaints Authority (AFCA), a one-stop-shop external dispute resolution scheme to hear and determine all financial and superannuation disputes. AFCA will commence operation in the second half of calendar 2018 and will replace the existing Financial Ombudsman Service, Credit and Investments Ombudsman and the Superannuation Complaints Tribunal.

The Senate Economics References Committee has conducted an Inquiry into the regulatory framework for the protection of consumers, including small businesses, in the banking and financial services sector. The Committee is to report by 22 March 2018.

In October 2016, the Australian Government announced a review of the enforcement regime of ASIC. A series of Issues Papers was released by Treasury in 2017. The findings of the ASIC Enforcement Review Taskforce are being considered by the Government.

The Productivity Commission is conducting a 12-month inquiry into competition in Australia's financial system. A Consultation Paper was released in July 2017 and a Draft Report was released on 7 February 2018, with a final report to be released in July 2018.

On 25 May 2017, the Australian Government asked the Australian Competition and Consumer Commission (ACCC) to conduct an Inquiry into the supply of home, contents and strata insurance in Northern Australia. An Issues Paper was released in October 2017 and submissions closed on 19 January 2018. The ACCC must submit interim reports to the Treasurer by 30 November 2018 and 30 November 2019. The Inquiry is to be completed and a final report submitted to the Treasurer by 30 November 2020.

The Productivity Commission conducted an Inquiry into Data Availability & Use. A Draft Report was issued in November 2016 and, following submissions, a Final Report was released in May 2017. The Government has established a cross-agency taskforce within the Department of Prime Minister and Cabinet to consider the recommendations. The Government is expected to release its response shortly.

Submissions to the Senate Economics Reference Committee Inquiry into non-conforming building products closed on 18 January 2017. Additional public hearings and submissions occurred in July 2017, with a Final Report due by 30 April 2018.

The Senate Inquiry into Impacts of Climate Change on housing, buildings and infrastructure (including insurance arrangements) was announced in May 2017. The Senate has granted an extension of time to report until 27 March 2018.

On 30 May 2017, the NSW Government announced it would defer the introduction of the Fire and Emergency Services Levy (FESL). The deferral of the reform (which was originally planned for 1 July 2017) impacted the removal of ESL from insurance premiums and the role of the Insurance Monitor. On 22 June 2017, the NSW Legislative Council Inquiry into the Fire and Emergency Services Levy was announced, with submissions due by 26 November 2017. The Inquiry is expected to report in 2018.

6. AUSTRALIA

MARKET ENVIRONMENT AND OUTLOOK

Market conditions in Australia are expected to remain competitive over the balance of FY18, with limited areas for future growth. Changing customer preferences and technology advances continue to create the need for change across the industry, encouraging a focus on quality underwriting, increased efficiency and cost reduction.

Within Consumer, claims inflation in short tail motor remains a concern. IAG is actively addressing associated cost pressures through operational initiatives, along with an increased focus on rate activity within its core portfolios.

The impact of price increases in short tail lines is expected to be offset by the impact of lower NSW CTP rates flowing from scheme reform. As a result, the expectation remains one of relatively flat Consumer GWP in FY18 compared to the prior year.

The Australian commercial insurance industry is providing growing evidence that the bottom of the cycle has passed, with increased rate being achieved across all portfolios.

GWP growth in the intermediated market is expected to be relatively flat, with moderate growth from direct channels and underwriting agencies contributing to a modestly positive GWP outcome for Business in FY18. This is after absorbing up to a \$60m shortfall in GWP in Swann Insurance owing to ceased or exited activities in the car and motorcycle dealer channels. Business continues to develop an enhanced direct SME proposition which is expected to drive longer term incremental GWP growth.

The Australia Division is continuing to focus on its customer value proposition, with initiatives in place to capitalise on changes in external influences and ensure it is well-placed to compete in the current environment. In the longer term, top line growth is expected to be driven by innovative products, employment of increasingly sophisticated data and risk analytics, and greater personalisation of products and services to connect customers with their insured assets and provide greater online engagement.

Consumer's underlying profitability is expected to improve in 2H18 as further benefits from claim initiatives are realised. The underlying margin for Business is expected to show further improvement in 2H18, owing to the earn through of cumulative rate increases and a return to more normal large loss experience.

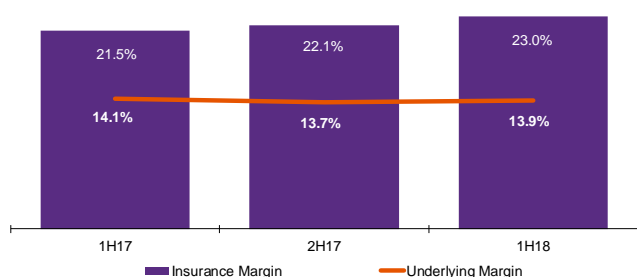
Modest GWP growth anticipated in Australia in FY18, alongside improved underlying margin

6. AUSTRALIA

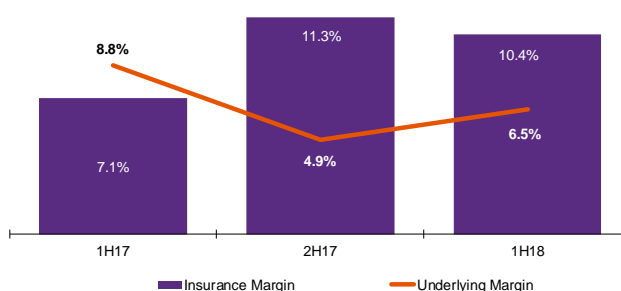
AUSTRALIA - SEGMENTAL FINANCIAL PERFORMANCE

	CONSUMER			BUSINESS		
	1H17 A\$m	2H17 A\$m	1H18 A\$m	1H17 A\$m	2H17 A\$m	1H18 A\$m
Gross written premium	3,060	3,059	3,052	1,423	1,539	1,401
Gross earned premium	2,980	3,021	3,092	1,550	1,466	1,520
Reinsurance expense	(837)	(849)	(878)	(417)	(376)	(407)
Net earned premium	2,143	2,172	2,214	1,133	1,090	1,113
Net claims expense	(1,269)	(1,371)	(1,345)	(667)	(627)	(650)
Commission expense	(114)	(127)	(122)	(173)	(168)	(169)
Underwriting expense	(313)	(305)	(315)	(217)	(230)	(221)
Underwriting profit	447	369	432	76	65	73
Investment income on technical reserves	14	111	77	5	58	43
Insurance profit	461	480	509	81	123	116
Profit/(loss) from fee based business				2	(30)	5
Share of profit/(loss) from associates				0	(1)	2
Total divisional result	461	480	509	83	92	123
Insurance Ratios	1H17	2H17	1H18	1H17	2H17	1H18
Loss ratio	59.2%	63.1%	60.7%	58.9%	57.5%	58.4%
Immunised loss ratio	61.8%	61.9%	61.2%	61.7%	56.3%	59.0%
Expense ratio	19.9%	19.8%	19.7%	34.5%	36.5%	35.1%
Commission ratio	5.3%	5.8%	5.5%	15.3%	15.4%	15.2%
Administration ratio	14.6%	14.0%	14.2%	19.2%	21.1%	19.9%
Combined ratio	79.1%	82.9%	80.4%	93.4%	94.0%	93.5%
Immunised combined ratio	81.7%	81.7%	80.9%	96.2%	92.8%	94.1%
Insurance margin	21.5%	22.1%	23.0%	7.1%	11.3%	10.4%
Underlying insurance margin	14.1%	13.7%	13.9%	8.8%	4.9%	6.5%
INSURANCE MARGIN IMPACTS	1H17 A\$m	2H17 A\$m	1H18 A\$m	1H17 A\$m	2H17 A\$m	1H18 A\$m
Reserve releases	135	230	134	24	69	41
Natural perils	(160)	(239)	(144)	(137)	(98)	(95)
Natural perils allowance	203	203	204	104	104	92
Credit spreads	3	10	30	2	5	17
Reserve releases	6.3%	10.6%	6.1%	2.1%	6.3%	3.7%
Natural perils	(7.5%)	(11.0%)	(6.5%)	(12.1%)	(9.0%)	(8.5%)
Natural perils allowance	9.5%	9.3%	9.2%	9.2%	9.5%	8.3%
Credit spreads	0.1%	0.5%	1.4%	0.2%	0.5%	1.5%

AUSTRALIA CONSUMER – MARGINS



AUSTRALIA BUSINESS - MARGINS



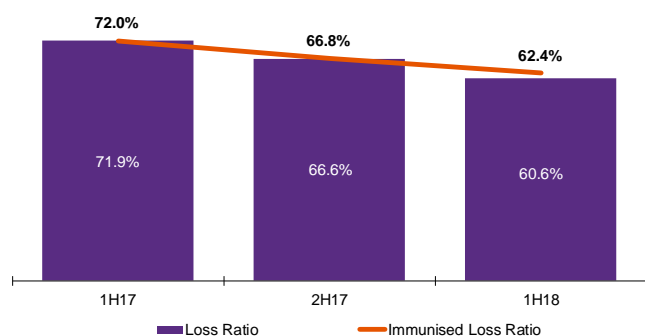
7. NEW ZEALAND

FINANCIAL PERFORMANCE

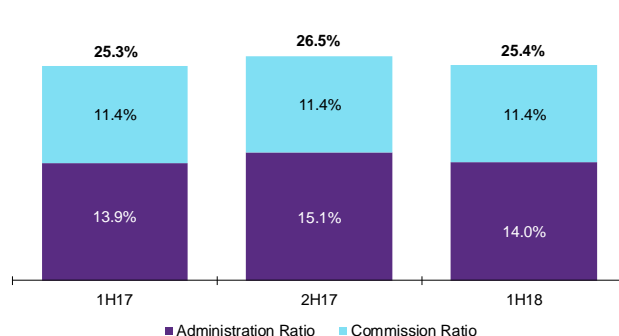
	1H17 A\$m	2H17 A\$m	1H18 A\$m
NEW ZEALAND			
Gross written premium	1,128	1,211	1,190
Gross earned premium	1,143	1,144	1,160
Reinsurance expense	(311)	(321)	(323)
Net earned premium	832	823	837
Net claims expense	(598)	(548)	(507)
Commission expense	(95)	(94)	(95)
Underwriting expense	(116)	(124)	(117)
Underwriting profit	23	57	118
Investment income on technical reserves	13	32	1
Insurance profit	36	89	119
Insurance Ratios	1H17	2H17	1H18
Loss ratio	71.9%	66.6%	60.6%
Immunised loss ratio	72.0%	66.8%	62.4%
Expense ratio	25.3%	26.5%	25.4%
Commission ratio	11.4%	11.4%	11.4%
Administration ratio	13.9%	15.1%	14.0%
Combined ratio	97.2%	93.1%	86.0%
Immunised combined ratio	97.3%	93.3%	87.8%
Insurance margin	4.3%	10.8%	14.2%
Underlying insurance margin	15.3%	14.3%	17.4%

INSURANCE RATIOS

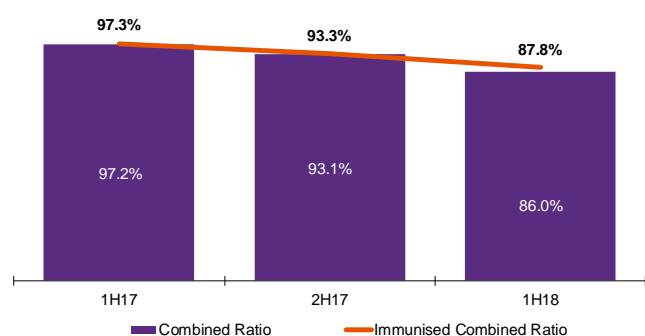
LOSS RATIO



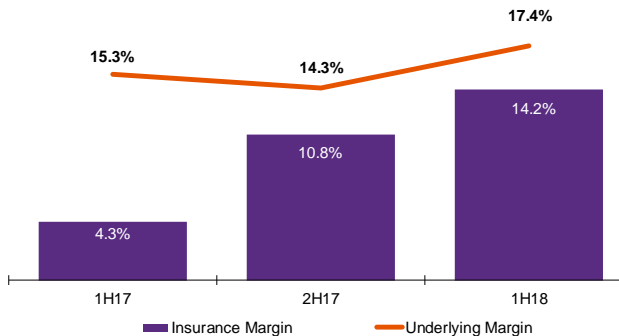
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

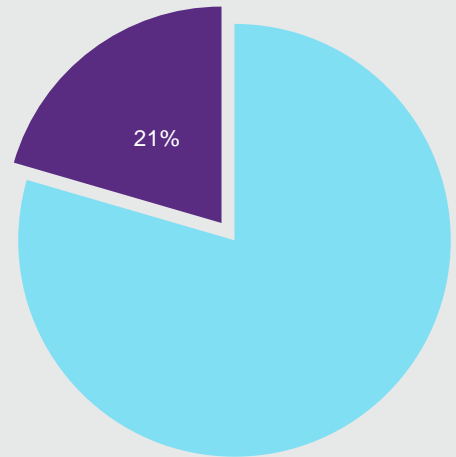


7. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- Strong local currency GWP growth of over 9%, driven by higher commercial rates and continued momentum in personal lines
- Strong underlying operating performance maintained – higher underlying margin of 17.4%
- Reported margin of 14.2% benefited from absence of earthquake events, with some offset from prior period reserve strengthening
- Canterbury rebuild nearing completion (98% of claims settled) and strong progress on outstanding Kaikoura claims
- Strong performance expected over balance of FY18

New Zealand - % Group GWP



PREMIUMS

New Zealand's local currency 1H18 GWP grew by 9.5% to NZ\$1,299m, compared to 1H17 (NZ\$1,186m). This strong performance was driven by the combination of:

- Strong GWP growth in the Business Division, as rate increases were achieved, particularly in commercial lines, with some offset from lower new business volumes as IAG adhered to its strong underwriting disciplines; and
- Ongoing GWP growth in the Consumer Division, led by the private motor vehicle portfolio which achieved volume growth and higher rates.

In reported terms, New Zealand recorded GWP growth of 5.5%, to \$1,190m, following an adverse foreign exchange translation effect.

Business Division represented 41% of New Zealand's GWP in 1H18 (1H17: 41%), with local currency GWP growth of over 11% compared to the same period last year. Commercial line rates have registered further improvement, particularly in Wellington, continuing the trend evident since the Kaikoura earthquake in November 2016.

Outside the Wellington region, the commercial market has remained competitive, with IAG experiencing a decline in retention and new business in the commercial property portfolio in 1H18 as pricing and underwriting disciplines were maintained. This was partially offset by an increase in both retention and new business in the commercial motor portfolio.

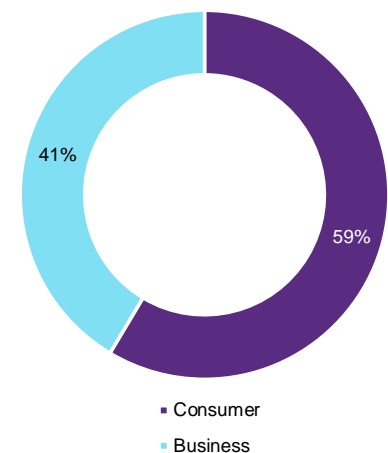
Business Division's personal lines achieved local currency GWP growth of over 8%, as rates continued to improve on FY17 experience.

Business Division's brands have continued to receive local industry recognition. At the 2017 ANZIIF New Zealand Insurance Industry Awards, NZI was named Intermediated Insurance Company of the Year and, for the second consecutive year, it won the Innovation of the Year award. This was for its Seeing Machines Guardian System, which is designed for commercial motor vehicles and helps to prevent driver fatigue and distraction-related incidents with real-time alerts.

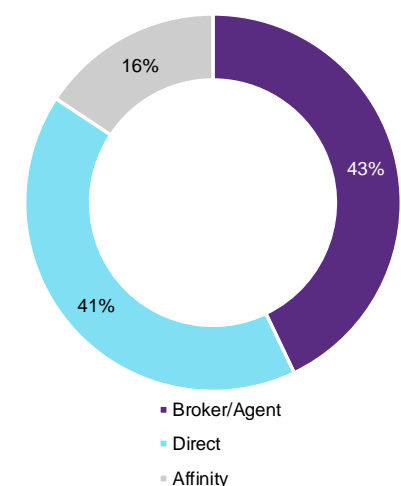
The Consumer Division represented 59% of New Zealand's GWP in 1H18 (1H17: 59%) and achieved local currency GWP growth of over 8% compared to 1H17. Growth was led by the AMI private motor portfolio, which achieved both rate and volume increases.

Strong increase in local currency GWP

NEW ZEALAND 1H18 GWP - DIVISION



NEW ZEALAND 1H18 GWP - CHANNEL



7. NEW ZEALAND

Retention and new business levels in Consumer's combined direct brands (AMI and State) were similar to the same period last year. Personal line products written through banking partners performed well, with higher retention rates across all key products, while overall new business levels were in line with 1H17 experience.

The Consumer Division's direct SME distribution channel continued to generate sound growth in 1H18. GWP growth of over 8% was achieved when compared with the same period last year.

The Consumer Division in New Zealand remains committed to bringing IAG's purpose to life – making your world a safer place. The AMI Summer of Safety campaign was launched in November at the AMI NZ Autocar Car of the Year awards and aims to promote vehicle, driver and road safety. AMI also partnered with the New Zealand Transport Authority to trial a solar-panelled advance warning stop sign. The new signs have shown encouraging results in reducing accidents at two high-risk intersections in New Zealand.

REINSURANCE EXPENSE

New Zealand's reinsurance expense was \$323m in 1H18, compared to \$311m in 1H17. The 3.9% increase comprises:

- An increase in quota share entitlement, in line with higher gross earned premium; and
- A higher underlying reinsurance expense, reflecting aggregate growth, increased cover and some offset from the lower rate realised for the calendar 2017 catastrophe renewal.

CLAIMS

New Zealand produced an improved 1H18 immunised loss ratio of 62.4% (1H17 72.0%). This included the blend of:

- Significantly lower net natural peril claim costs of \$17m (1H17: \$123m) due to the absence of any earthquake events in 1H18; partially offset by
- Prior period reserve strengthening of over \$50m.

The reported loss ratio of 60.6% (1H17: 71.9%) included a favourable foreign exchange impact of \$16m from reinsurance recoveries tied to the FY11 earthquakes, as held by the Singapore captive, compared to a minor impact in 1H17. A corresponding negative effect is included in investment income on technical reserves, resulting in no net impact to the insurance margin.

1H18 experienced subdued levels of natural peril activity in comparison to 1H17, which included the Kaikoura earthquake. Net related claim costs were \$26m below allowance with no significant events during the period.

NATURAL PERILS	1H17	2H17	1H18
New Zealand	A\$m	A\$m	A\$m
Net natural peril claim costs	(123)	(59)	(17)
Natural peril allowance	32	32	43
Impact on insurance profit	(91)	(27)	26
Impact on insurance margin	(11.0%)	(3.3%)	3.1%

Net prior period reserve strengthening of \$53m in 1H18 covers:

- Potential claims under architect/engineer professional indemnity policies relating to residual risk (e.g. negligence) from post-earthquake building damage and rebuild activity; and
- Adverse development of prior year storm events.

Higher underlying reinsurance expense includes aggregate growth and increased cover

Lower loss ratio assisted by benign perils experience

Net prior period reserve strengthening of \$53m

7. NEW ZEALAND

	1H17 A\$m	2H17 A\$m	1H18 A\$m
RESERVE RELEASES			
New Zealand	-	(2)	(53)
Impact on insurance margin	-	(0.2%)	(6.3%)

Working claim experience in 1H18 was in line with expectations and 1H17. Average claim costs increased marginally compared with the same period last year but claim frequency has started to level off. There was strong progress on the action plans developed in FY17 to tackle increased claim costs in the private motor, home owner and commercial motor books, addressing ongoing pressure on vehicle replacement part costs, repairer labour rates and construction costs.

Large claim (greater than NZ\$100,000) experience in 1H18 was above expectations, driven by adverse experience in the professional risks portfolios. Overall large claims were in line with the same period last year.

CANTERBURY REBUILD

The settlement of claims associated with the FY11 Canterbury earthquake events continues to make sound progress. At 31 December 2017:

- Over NZ\$6.5bn of claim settlements had been completed;
- 98% of all claims by number had been fully settled;
- Over 98% of commercial claims had been fully settled; and
- Over 97% of residential claims had been settled, with the balance either in construction or negotiation for cash settlement.

IAG has increased its gross reserved position on the three major earthquakes in FY11. This falls to the account of IAG's reinsurers, with no earnings impact to IAG. Following this increase in earthquake reserves, IAG has utilised approximately 10% of the NZ\$600m adverse development cover in excess of NZ\$4.4bn on the February 2011 event.

Reinsurance cover still in place to absorb any adverse development on the FY11 earthquake events stands at:

- In excess of NZ\$1bn for September 2010;
- ~NZ\$540m for February 2011; and
- Just under NZ\$4bn for June 2011.

During 1H18 IAG continued to receive further claims from the Earthquake Commission (EQC) as they tipped over the EQC cap of NZ\$100,000 plus GST. IAG's reserving position at the end of 1H18 allows for further claims exceeding the EQC's cap.

The Joint Accelerated Review Team (JART), led by IAG on behalf of the industry, has now ceased, with the EQC entering into bilateral agreements with individual insurers to resolve over-cap Canterbury claims. IAG has continued to work closely with the EQC to progress these claims.

Remaining claims include those subject to dispute or litigation, high customer utilisation of independent expert advice and newly-received over-cap claims from the EQC. It is IAG's expectation that finalisation of all residual claims will take several years given the complexity of these matters.

All earthquake settlement statistics exclude claims related to the Lumley business. These are managed by IAG but are subject to indemnities from the previous owner which result in no further financial exposure for IAG.

Strong progress on addressing increased claim costs in motor and home

Over NZ\$6.5bn of FY11 earthquake claims now paid – 98% of claims by number fully settled

7. NEW ZEALAND

KAIKOURA EARTHQUAKE

Significant progress has been made in the settlement of claims associated with the November 2016 Kaikoura earthquake. As at 31 December 2017 80% of all claims by number had been fully settled. Residential dwelling assessments were 96% complete and over 70% of commercial claims had been settled. With the expiry of many indemnity periods for business interruption policies nearing, it is anticipated that a large number of outstanding business interruption claims will be fully settled in early 2018.

IAG is continuing to work with the EQC to settle claims arising from the Kaikoura event. All personal home and contents claims arising from the event are being handled regardless of whether they are under or over the EQC's cap of NZ\$20,000 for contents and NZ\$100,000 for home damage (plus GST). Under the Memorandum of Understanding entered into in December 2016, IAG is reimbursed by the EQC for its liability following claims settlement. This process has worked very effectively.

EXPENSES

New Zealand's reported expenses totalled \$212m in 1H18, compared to \$211m in 1H17. This flat outcome embraced:

- Continued investment in operational partnering and technology simplification programs;
- The absence of the one-off \$7m benefit from winding up an old defined benefit superannuation scheme in 1H17; offset by
- Disciplined expense management and a strict focus on cost savings; and
- Ongoing process streamlining and simplification to drive efficiencies.

The 1H18 administration ratio increased marginally to 14.0%, compared to 13.9% in 1H17.

INSURANCE PROFIT

The New Zealand business produced a substantially higher insurance profit of \$119m in 1H18, compared to \$36m in 1H17. This equates to a reported insurance margin of 14.2% (1H17: 4.3%), with the improvement reflecting the combination of:

- A positive movement in gross earned premium, reflecting sound growth in the Consumer Division (led by the AML private motor portfolio) and rate-driven benefits in the Business Division;
- Subdued net natural peril claim costs and the absence of any earthquake events in 1H18;
- Working claims in line with expectations as initiatives to remediate claims performance begin to deliver;
- Continued focus on disciplined expense management; and
- Some offset from prior period reserve strengthening.

NEW ZEALAND	1H17	2H17	1H18
Insurance Margin Impacts	A\$m	A\$m	A\$m
Reserve releases	-	(2)	(53)
Natural perils	(123)	(59)	(17)
Natural peril allowance	32	32	43
Reserve releases	-	(0.2%)	(6.3%)
Natural perils	(14.8%)	(7.2%)	(2.0%)
Natural peril allowance	3.8%	3.9%	5.1%

Strong expense control in evidence

Strong underlying performance

7. NEW ZEALAND

The New Zealand business continues to generate a strong underlying performance, with an increase in underlying margin to 17.4% (1H17: 15.3%).

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

MARKET REGULATION AND REFORM

The general election in October 2017 resulted in a new Labour-led coalition government. This is not expected to materially change the direction of regulatory reform.

The Reserve Bank of New Zealand's (RBNZ) review of the Insurance Prudential Supervision Act continues. The RBNZ issued a paper in October 2017 that summarised submissions and outlined its timing for further consultation on specific topics. Priority will be given to considering:

- Changes to the entities that are required to be licenced;
- Treatment of branch operations of overseas insurers;
- The use of different regulatory instruments; and
- Disclosures.

Later rounds of consultation will address enforcement regimes, distress management, the role of key officers, the use of statutory funds, the solvency framework and the supervisory process. A final option paper is expected in mid-2019.

Detailed design of changes to the Fire and Emergency Levy (under the Fire and Emergency New Zealand Act) continues. The focus of consultation is on:

- The detailed calculation and reporting requirements involved in extending the levy to include insurance on material damage (rather than just fire damage) and third-party motor vehicle insurance;
- The model for residential levy calculations; and
- Updated levy rates for the new calculation methods.

Changes are expected to come into force from 1 January 2019 and will result in operational changes to systems and products. An increase in the current levy was successfully implemented in July 2017, which saw it increase by NZ3¢ per NZ\$100 of cover to a maximum of NZ\$21.20 and NZ\$106 on contents and home policies respectively.

An increase in the EQC levy was successfully implemented in November 2017, which saw it increase by 33% to NZ\$40 and NZ\$200 on contents and home policies respectively.

MARKET ENVIRONMENT AND OUTLOOK

The New Zealand economy remains solid with GDP growth of 3.0% for the 12 months ended 30 September 2017. Current growth expectations see GDP averaging around 3.3% over the following two years driven by an expected increase in government spending including investments in housing, infrastructure and social welfare programs.

The New Zealand insurance market is expected to remain competitive across both the Consumer and Business Divisions in the second half of FY18. IAG's priority is to remain focused on meeting the needs of both personal and business customers by providing a range of insurance solutions in dynamic market conditions.

RBNZ review of Insurance Prudential Supervision Act – final option paper expected mid-2019

Underlying profitability expected to remain strong

7. NEW ZEALAND

Solid GWP growth is expected over the course of 2H18. This is expected to comprise continued personal lines growth, driven by both rate and volume, accompanied by further rate-driven growth in commercial lines as strong underwriting disciplines are maintained and profitable sustainable growth is prioritised.

The business' underlying profitability is expected to remain strong.

IAG's strategy in New Zealand remains one of:

- Providing world-leading customer solutions that safeguard assets and lifestyles, including further development of its digital proposition and leveraging off IAG's innovation incubator to further enhance the customer experience; and
- Maintaining its market-leading position by delivering strong sustainable underlying profitability through continued focus on pricing and underwriting disciplines, and expense management.

8. ASIA

FINANCIAL PERFORMANCE

ASIA	1H17 A\$m	2H17 A\$m	1H18 A\$m
Gross written premium	182	184	185
Gross earned premium	186	185	186
Reinsurance expense	(53)	(52)	(50)
Net earned premium	133	133	136
Net claims expense	(89)	(92)	(86)
Commission expense	(33)	(31)	(34)
Underwriting expense	(23)	(19)	(22)
Underwriting (loss)	(12)	(9)	(6)
Investment income on technical reserves	5	4	4
Insurance (loss)	(7)	(5)	(2)
Share of profit from associates	9	13	17
Total divisional result	2	8	15

FINANCIAL CONTRIBUTION BY COUNTRY

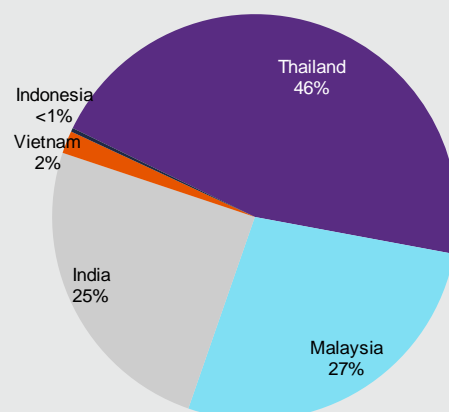
ASIA	Gross GWP		Proportional GWP		Earnings Contribution	
	1H17 A\$m	1H18 A\$m	1H17 A\$m	1H18 A\$m	1H17 A\$m	1H18 A\$m
Thailand	173	177	173	177	-	5
Malaysia	245	216	120	106	10	13
Established markets	418	394	293	283	10	18
India	254	369	66	96	6	11
Vietnam	8	7	8	7	-	(1)
Indonesia	1	1	1	1	(2)	(3)
Developing markets	263	377	75	104	4	7
Total Asian operations	681	770	368	387	14	25
Support and development costs	n/a	n/a	n/a	n/a	(12)	(10)
Total divisional result	681	770	368	387	2	15

8. ASIA

EXECUTIVE SUMMARY

- Participation in gross annual GWP pool of over \$1.5bn across five countries
- Proportional GWP growth of 5.2% led by strong growth in India
- Higher overall divisional profit of \$15m (1H17: \$2m)
- Return to profit in Thailand - absence of large commercial losses
- Stronger earnings contribution from Malaysia
- Further improvement in profitability in India, driven by portfolio remediation and one-off reinsurance commission adjustment
- Asian investment of \$806m - \$50m writedown offset by retained earnings and FX effects
- Strategic review of options available for Asian businesses – to be completed by end of calendar 2018

Asia Proportional GWP 1H18



DIVISIONAL OVERVIEW

IAG has a presence in five Asian markets: consolidated businesses in Thailand, Vietnam and Indonesia, and joint ventures in Malaysia and India.

IAG has interests in Asian businesses whose combined annualised GWP pool is over \$1.5bn. In 1H18, IAG's proportional share of that pool was \$387m, an increase of 5.2% over 1H17. This contained:

- A strong recovery in motor growth in Thailand, partly offset by lower commercial business as part of a de-risking strategy;
- A contraction in Malaysia owing to increased price competition following liberalisation of motor and fire insurance; and
- Continuing strong growth in India, largely from personal accident, motor and agriculture.

The division contributed a total profit of \$15m in 1H18, including shares of associates, compared to \$2m in 1H17. The improvement encompassed:

- The absence of large commercial losses in Thailand following reduced exposure to selected segments of this book;
- The favourable impact of tighter underwriting and pricing actions undertaken in Malaysia, along with higher prior period reserve releases;
- Improved profits in India owing to better risk selection following portfolio remediation, a favourable one-off reinsurance effect and the influence of a relatively benign monsoon season;
- A small loss from the combination of Vietnam and Indonesia; and
- Lower regional support and development costs.

As part of its overall Asia strategy, IAG has expressed a strong interest in growth via market consolidation and increased ownership. IAG's current assessment is that such opportunities are limited, resulting in the decision to conduct a strategic review of the options available for its Asian businesses. This review is expected to be concluded by the end of calendar 2018.

As at 31 December 2017, IAG's investment in Asia was \$806m, of which \$646m (80.1%) was in Thailand and Malaysia. A net reduction of \$1m since 30 June 2017 comprises:

- A \$50m writedown included in IAG's amortisation and impairment expense, after a review of the recoverable amount of the Asian assets on the back of updated assumptions and forecasts; countered by
- Favourable retained earnings and foreign exchange effects.

Proportional GWP growth of 5.2% led by strong growth in India

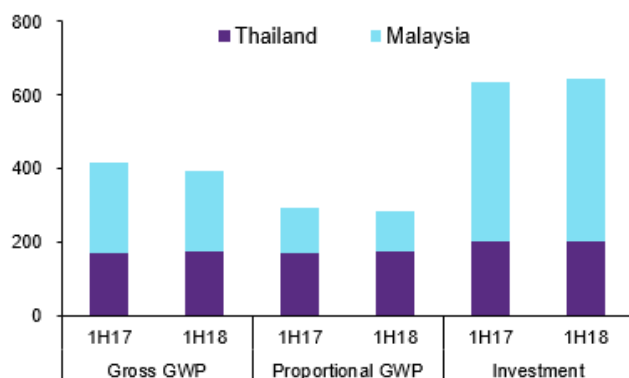
Improved earnings outcomes in Thailand, Malaysia and India

Strategic review of Asian options – outcome by end of calendar 2018

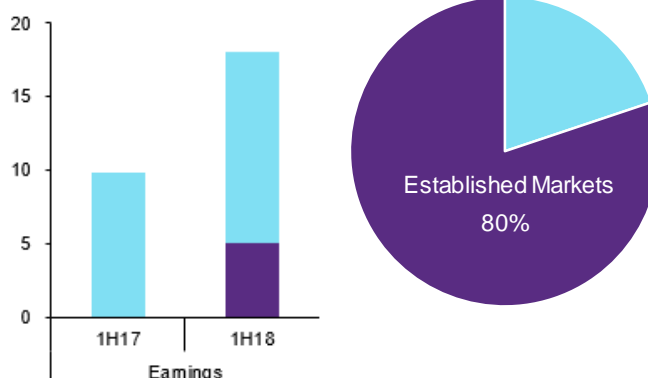
Net investment of ~\$800m in Asia

8. ASIA

ESTABLISHED MARKETS (A\$M)



% ASIAN INVESTMENT



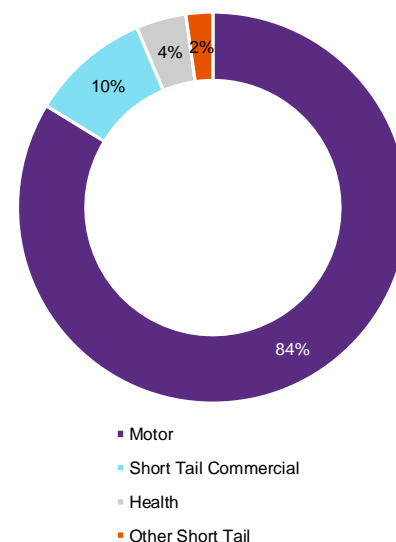
THAILAND

Market Presence

IAG holds a 98.6% beneficial interest in Safety Insurance, a predominantly motor insurer, which operates under a single licence while using two brands: Safety (personal lines) and NZI (commercial lines). It is the third largest motor insurer in Thailand, with a strong reputation for customer service.

SAFETY	1H17	2H17	1H18
Financial Performance	A\$m	A\$m	A\$m
Gross written premium	173	175	177
Gross earned premium	175	175	177
Reinsurance expense	(51)	(50)	(49)
Net earned premium	124	125	128
Net claims expense	(86)	(90)	(84)
Commission expense	(30)	(28)	(30)
Underwriting expense	(12)	(12)	(12)
Underwriting profit/(loss)	(4)	(5)	2
Investment income on technical reserves	4	3	3
Insurance profit/(loss)	-	(2)	5
Insurance Ratios	1H17	2H17	1H18
Loss ratio	69.4%	72.0%	65.3%
Expense ratio	33.9%	32.0%	33.1%
Commission ratio	24.2%	22.4%	23.7%
Administration ratio	9.7%	9.6%	9.4%
Combined ratio	103.3%	104.0%	98.4%
Insurance margin	-	(1.6%)	4.0%

SAFETY – 1H18 GWP BY CLASS



Operating Performance

Thailand's 1H18 GWP of \$177m represented reported growth of 2.3% over 1H17, or 0.2% in local currency terms. This reflects the combined effect of:

- A strong recovery in motor, as price competition subsided and market conditions improved, resulting in local currency GWP growth of over 6%; and
- Lower commercial volumes following a planned reduction in exposure to selected segments.

As a result, the proportion of GWP sourced from motor has increased to 84%, compared to 79% in 1H17.

Recovery in Thai GWP on return to motor growth

8. ASIA

Thailand reported an improved insurance profit of \$5m, compared to breakeven in 1H17, derived from the following mixture of influences:

- A relative absence of large losses and prior period reserve strengthening, following remediation actions undertaken in the commercial book;
- Higher flood claims from a prolonged rainy season; and
- A further regulatory-led increase in compulsory motor claim limits, with no commensurate premium increase.

Market Environment

The Thai general insurance industry grew by 4.6% in the first nine months of calendar 2017, and is expected to expand further driven by improving economic conditions and increasing income levels. Growth is expected to be fairly consistent across the major non-life lines, as expansion in vehicle ownership boosts motor premiums, while growth in disposable income combined with an ageing demographic drives demand for health and personal accident insurance.

MALAYSIA

Market Presence

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

AMGENERAL	1H17	2H17	1H18
Financial Performance	A\$m	A\$m	A\$m
Gross written premium	245	239	216
Gross earned premium	251	238	231
Reinsurance expense	(20)	(23)	(19)
Net earned premium	231	215	213
Net claims expense	(154)	(134)	(134)
Commission expense	(28)	(25)	(24)
Underwriting expense	(49)	(49)	(50)
Underwriting profit	-	7	5
Investment income on technical reserves	15	18	17
Insurance profit	15	25	22
Net profit after tax	20	37	26
Net profit after tax - IAG's share (49%)	10	18	13
Insurance Ratios	1H17	2H17	1H18
Loss ratio	66.7%	62.4%	63.2%
Expense ratio	33.3%	34.5%	34.5%
Commission ratio	12.1%	11.7%	11.1%
Administration ratio	21.2%	22.8%	23.4%
Combined ratio	100.0%	96.9%	97.7%
Insurance margin	6.5%	11.5%	10.4%

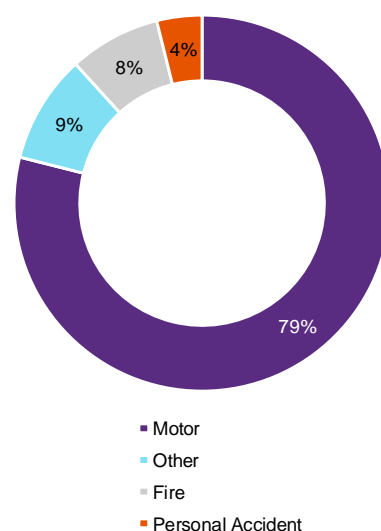
Operating Performance

AmGeneral's GWP contracted by 11.8% in 1H18, and 8.2% in local currency terms. The decline is attributable to intense pricing competition following market liberalisation of motor and fire insurance, coupled with the impact of lower volumes from stricter underwriting and risk selection to address the less profitable segments of the motor book.

Improved insurance profit – absence of large losses from remediated commercial book

Lower local currency GWP from AmGeneral in 1H18 – increased price competition post-liberalisation

AMGENERAL – 1H18 GWP BY CLASS



8. ASIA

The Malaysian business has continued to pursue longer term growth from its distribution and customer service proposition strategy, which has included:

- The launch of an agent performance engagement platform and the reassessment of franchise agreements to balance growth with profitability;
- A focus on segmentation at product portfolio level with an overlay of customer insights to determine product design and marketing strategy;
- Further enhancement of motor pricing, underwriting and risk selection capabilities to compete effectively in a detariffed motor market;
- The enhancement of back-end operations support and the implementation of upgrades to improve systems performance; and
- A renewed focus on the commercial and non-motor segments of the market.

In 1H18, AmGeneral's insurance margin of 10.4% was significantly higher than 1H17 (6.5%), reflecting the combination of:

- Effective pricing actions and portfolio management, supplemented by higher prior period reserve releases;
- Reduced net earned premium on the back of a reduction in average premiums for motor insurance and lower growth; and
- Additional marketing spend on detariffication-related initiatives.

Higher insurance margin from effective pricing and portfolio management

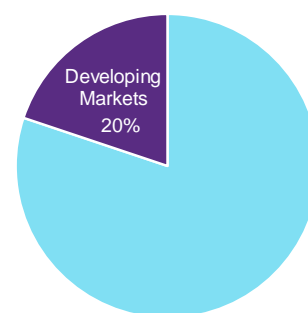
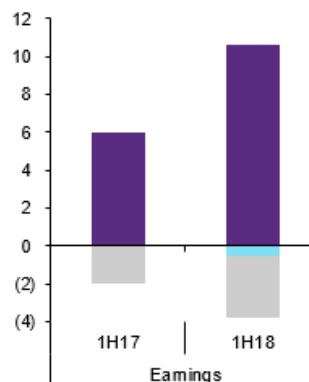
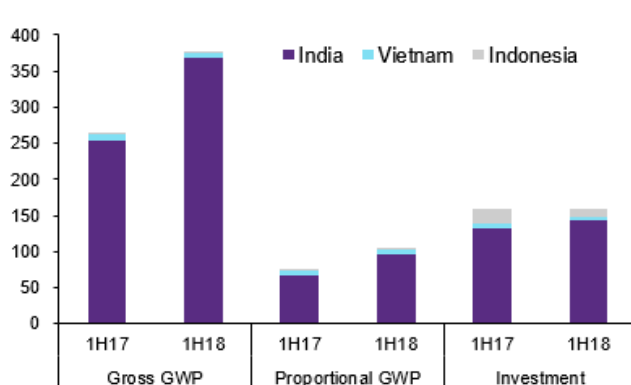
Market Environment

The Malaysian general insurance industry contracted by 0.1% in calendar 2017, after absorbing the headwinds of lower new motor vehicle sales and intense price competition following the phased liberalisation of motor and fire insurance. The General Insurance Association of Malaysia has predicted relatively flat growth in calendar 2018.

Relatively flat industry outlook in 2018

DEVELOPING MARKETS (A\$M)

% ASIAN INVESTMENT



INDIA

Market Presence

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

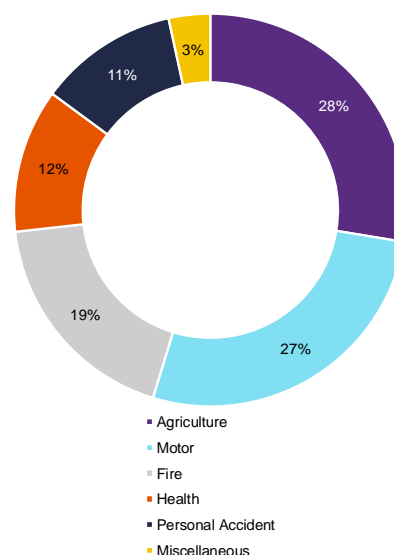
Strong GWP growth and improved profitability from SBI General

8. ASIA

SBI GENERAL	1H17	2H17	1H18
Financial Performance	A\$m	A\$m	A\$m
Gross written premium	254	299	369
Gross earned premium	274	250	443
Reinsurance expense	(124)	(95)	(253)
Net earned premium	150	155	190
Net claims expense	(116)	(106)	(137)
Commission and underwriting expenses	(63)	(52)	(32)
Underwriting profit/(loss)	(29)	(3)	21
Investment income on technical reserves	37	24	12
Insurance profit	8	21	33
Net profit after tax	21	32	41
Net profit after tax - IAG's share (26%)	6	8	11

Insurance Ratios	1H17	2H17	1H18
Loss ratio	77.3%	68.5%	72.3%
Expense ratio	42.0%	33.6%	16.9%
Combined ratio	119.3%	102.1%	89.2%
Insurance margin	5.3%	13.4%	17.4%

SBI GENERAL – 1H18 GWP BY CLASS



Operating Performance

SBI General has continued to grow strongly, generating 1H18 GWP equivalent to \$369m (IAG's 26% share being approximately \$96m), an increase of over 45% compared to 1H17. Local currency GWP growth exceeded 44%. SBI General is the thirteenth largest general insurer in India, with an overall market share of 2.4% as at 30 November 2017.

GWP growth in 1H18 was largely driven by an uplift in personal accident insurance demand through the SBI bank channel, along with strong motor growth following completion of the portfolio remediation work to reduce loss-making business in the agency channel. Increased crop insurance volumes provided a further boost.

SBI General reported an insurance profit of \$33m in 1H18, up from the \$8m recorded in 1H17. This improvement included:

- An improved loss ratio arising from motor portfolio remediation;
- A relatively benign monsoon season in 1H18;
- Lower investment income due to an unfavourable mark-to-market movement in the technical reserves fund; and
- A positive one-off effect from the finalisation of a reinsurance treaty for the long term home portfolio. This includes a material reinsurance commission income adjustment and significant impacts to reported gross earned premium and reinsurance expense. The overall effect was a one-off increase in insurance profit of around \$30m (100%).

SBI General's net profit after tax was \$41m (1H17: \$21m), of which IAG's share is approximately \$11m. This included an unfavourable mark-to-market movement in shareholders' funds income.

Market Environment

The medium to long term growth prospects of the Indian general insurance market remain strong. The industry grew by 18.9% in the opening nine months of fiscal year ending 31 March 2018, led by the new government-backed agricultural insurance schemes and increased penetration in motor. This healthy growth rate is expected to be maintained through to 2021, as economic growth boosts disposable income and the insurance market expands to reach more first-time buyers.

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

8. ASIA

On the regulatory front, there are plans to impose a cap on insurers' expense ratios and a move to reduce the commission paid to agents by insurance companies, including any additional overriding commissions and incentives. The regulatory framework continues to evolve rapidly, led by the government's focus on market reforms, a broader social agenda and an emphasis on majority Indian ownership and control.

VIETNAM

Market Presence

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

Operating Performance

AAA Assurance's GWP contracted by 11% in local currency terms in 1H18, driven by the cessation of a credit insurance product with a banking partner on profitability grounds and lower motor volumes. An insurance loss of \$1m was reported for 1H18, compared to a breakeven result in the same period last year. This reflected lower revenue against a largely fixed expense base.

A development plan is being pursued to deliver an efficient distribution base, while targeting selective profitable growth segments of the market.

Market Environment

In calendar 2017 total non-life premiums grew by 11%, driven by increased product awareness and an expanding economy. There remains strong growth potential in non-life insurance as penetration rates for key products remain below regional averages.

INDONESIA

Market Presence

IAG owns 80% of PT Asuransi Parolamas, a small general insurance company based in Jakarta. This acquisition was completed at the end of April 2015 to provide IAG with the necessary insurance licence to compete in Indonesia. IAG is pursuing a digitally-led business model in Indonesia focused on affinity and direct-to-consumer distribution and developing new innovative products for targeted customer groups.

Operating Performance

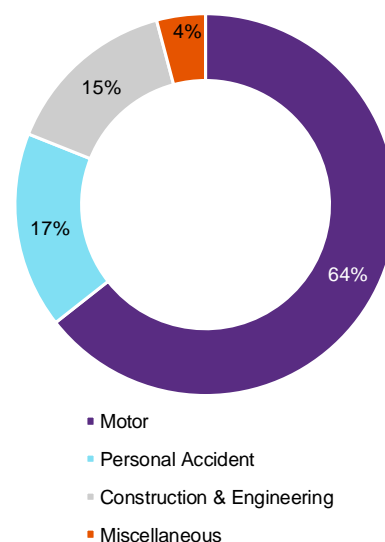
In 1H18, Parolamas reported lower GWP of less than \$1m and an insurance loss of \$3m. The lower GWP reflects the cessation of traditional business lines and a distribution arrangement that were outside IAG's risk appetite. The company is in the midst of rationalising its branch network as it embarks on its digitally-led growth strategy. Pilot tests on a few digital marketing campaigns were launched during 1H18.

Market Environment

The Indonesian General Insurance Association expects the industry to have expanded by 6-7% in calendar 2017, supported by government infrastructure developments across the country and resumption of growth in motor vehicle sales. Strong industry growth of the order of 10% per annum is anticipated over the next five years, driven by a large and young population, healthy economic growth, rising demand for non-life insurance products and an improving regulatory operating environment.

Small loss from Vietnam

AAA ASSURANCE – 1H18 GWP BY CLASS



Developing a digitally-led business model in Indonesia

8. ASIA

REGIONAL SUPPORT AND DEVELOPMENT COSTS

Regional support and development expenditure is deployed to support IAG's operational footprint in Asia. In 1H18 total regional support and development costs reduced to \$10m (1H17: \$12m) owing to lower headcount and the new oversight and development model which was put in place to achieve greater cost efficiency.

OUTLOOK

Asia's primary focus is to continue with the work to restore underlying margins in the established markets of Thailand and Malaysia to historical levels. GWP on a proportional basis is expected to register good growth, led by the continuing strong momentum in India.

Thailand continues to focus on underwriting discipline in the light of uneconomic pricing undertaken by competitors. The business is actively diversifying its portfolio by implementing a redefined non-motor and distribution strategy in FY19.

In Malaysia, AmGeneral is implementing risk-based pricing, portfolio optimisation and claim management efficiency as it seeks to maintain its leading position in motor following market liberalisation. GWP growth is expected to remain under pressure in 2H18 as the market responds to the liberalised pricing environment.

Growth from SBI General in India is expected to remain strong, supported by maximisation of opportunities in profitable segments of the bank channel, and enhanced management of the agency and dealer network. The business is expected to achieve improved underlying profitability in FY18 through effective portfolio management.

While work continues in Vietnam to clearly define AAA's strategic position, the emphasis in Indonesia will be to progress the digitally-led business model with a series of test-and-learn initiatives with affinity partnership and customer groups.

New support model
delivering lower regional
costs

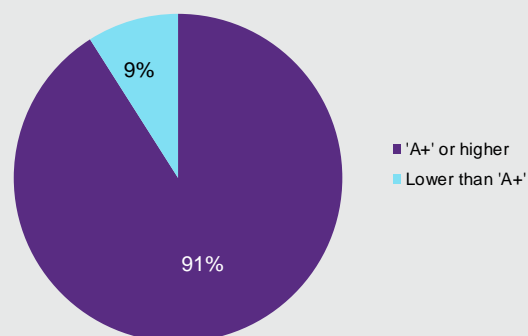
Restoration of underlying
profitability levels in key
markets is main focus

9. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Increased use of reinsurance via quota shares – further 12.5% whole-of-account from 1 January 2018
- Catastrophe program renewed 1 January 2018 with similar structure to prior years
- Gross catastrophe cover of up to \$8bn, placed to 67.5% to reflect all quota share agreements
- Group maximum event retention (MER) of \$169m at 1 January 2018, post-quota share
- Additional FY18 perils cover of \$88m in excess of \$664m (post-quota share)

Counter-Party Risk - Catastrophe Program
(as at 1 January 2018)



REINSURANCE STRATEGY

IAG's reinsurance program is an important part of its approach to capital management. IAG has a philosophy of limiting its main catastrophe retention to a maximum of 4% of NEP. Current retentions are below this level.

IAG determines its reinsurance requirements for Australia and New Zealand on a modified whole-of-portfolio basis (where modified whole-of-portfolio is the sum of all correlated risk). The limits purchased at 1 January 2018 reflect a 1-in-250-year return period in Australia, and are more conservative than the Australian regulator's 1-in-200-year return period requirement.

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

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

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

MARKET ENVIRONMENT

The insured cost of global catastrophe events has been estimated at in excess of US\$100bn for calendar 2017, the highest level ever. This includes the three major hurricane events in the Caribbean and a severe earthquake in Mexico. While reinsurance capital levels remain high, the level of catastrophe activity has contributed to some modest upwards pressure on reinsurance rates, as experienced by IAG at the time of its calendar 2018 catastrophe renewal. Further modest increases are anticipated in the future, although market conditions across all classes of business should remain relatively favourable for purchasers of reinsurance.

WHOLE-OF-ACCOUNT QUOTA SHARE

With effect from 1 January 2018, IAG has increased its use of more efficient reinsurance capital via quota shares. From this date, 32.5% of IAG's consolidated business is subject to quota share on a whole-of-account basis. This comprises:

Reinsurance is a key part of IAG's overall approach to capital management

Modest upwards pressure on global reinsurance rates

Use of quota shares increased to 32.5% of consolidated business

9. REINSURANCE

- The ten-year, 20% arrangement with Berkshire Hathaway commencing 1 July 2015, for losses occurring after that date; and
- Three agreements for a combined 12.5% from 1 January 2018, with Munich Re, Swiss Re and Hannover Re. The average initial term of these agreements is over five years.

The individual agreements deliver similar benefits and financial effects, on a pro rata basis. These include reduced earnings volatility, as insurance risk is effectively exchanged for a more stable fee income stream, a lower requirement for catastrophe reinsurance and reduced exposure to volatility in associated premium rates, and a reduction in IAG's regulatory capital needs.

The combined 12.5% agreements were announced in December 2017 and are expected to result in:

- A reduction in regulatory capital requirement of approximately \$435m, over a three-year period, over \$100m of which was realised on 31 December 2017; and
- Broadly neutral EPS and ROE effects, prior to consideration of potential capital management impacts.

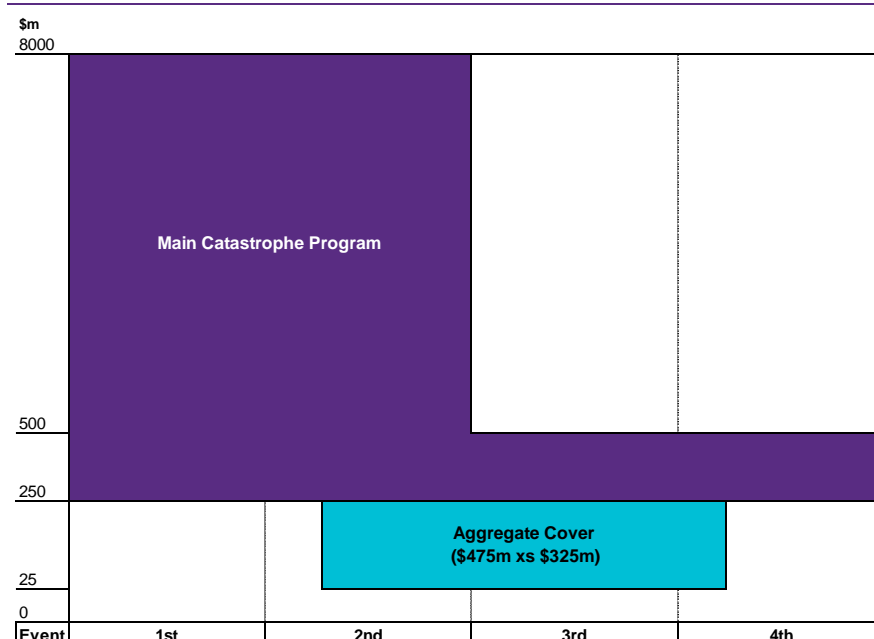
The new agreements significantly diversify the maturity and counterparty profile of IAG's providers of quota share reinsurance capital.

CATASTROPHE COVER

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

IAG's catastrophe reinsurance program for 2018 has been constructed in a similar manner to prior years. It provides up to \$8bn of gross reinsurance protection and has been placed to the extent of 67.5% (2017: 80%), after allowance for quota shares. Compared to calendar 2017, underlying aggregate exposure has increased modestly.

GROSS CATASTROPHE REINSURANCE – AS AT 1 JANUARY 2018



Gross catastrophe cover of up to \$8bn, placed to 67.5% to reflect quota shares

9. REINSURANCE

At renewal on 1 January 2018 the integrated catastrophe program comprised two main key components:

- A main cover for losses up to \$8bn, including one prepaid reinstatement. IAG retains the first \$250m of each loss (\$169m post-quota share), with three prepaid reinstatements secured for the lower layer of the main program (\$169m excess of \$169m, post-quota share); and
- An aggregate sideways cover that provides protection of \$475m excess of \$325m (\$321m excess of \$219m, post-quota share), with qualifying events capped at a maximum contribution of \$225m excess of \$25m per event (\$152m excess of \$17m, post-quota share). This cover reduces the cost of a second event to \$125m (\$84m post-quota share) and a subsequent event to \$25m (\$17m post-quota share).

2018 CATASTROPHE REINSURANCE PROGRAM		
Cover	Gross	Net of quota share (67.5%)
Main cover	\$7.75bn xs \$250m	\$5.23bn xs \$169m
Aggregate cover	\$475m xs \$325m	\$321m xs \$219m
Aggregate cover qualifying events	\$225m xs \$25m	\$152m xs \$17m
Retentions	Gross	Net of quota share (67.5%)
First event	\$250m	\$169m
Second event	\$125m	\$84m
Subsequent event	\$25m	\$17m

The overall credit quality of the 2018 program is high, with 91% (2017: over 92%) placed with entities rated A+ or better.

IAG also has a reinsurance cover for retained natural perils which runs in line with the financial year. This provides \$88m of cover in excess of \$664m (post-quota share) for the 12 months to 30 June 2018.

The combination of all catastrophe covers in place at 1 January 2018 results in post-quota share first event retentions of \$169m for Australia, NZ\$169m for New Zealand, \$20m for Malaysia, \$17m for Thailand and approximately \$1m for Vietnam and Indonesia.

CTP QUOTA SHARE

IAG has a quota share agreement with Munich Re in respect of 30% of its combined CTP book for a minimum four-year period from 1 July 2016, with an option for a further two years. The agreement covers all CTP written in NSW, the ACT and South Australia. The CTP quota share runs in conjunction with the whole-of-account agreements, meaning 62.5% of IAG's CTP book is subject to quota share from 1 January 2018.

RUN-OFF PORTFOLIO PROTECTION

In February 2016, IAG completed an innovative package of reinsurance transactions with Berkshire Hathaway that materially mitigated IAG's exposure to its two largest run-off portfolios: New Zealand earthquake and asbestos. The transaction comprised:

MER of \$169m, post-quota share

30% CTP quota share agreement until at least 30 June 2020

Run-off portfolio protections completed in 2H16

9. REINSURANCE

- An ADC providing NZ\$600m of protection above NZ\$4.4bn for the February 2011 Canterbury earthquake event; and
- An arrangement in respect of IAG's asbestos portfolio, which mainly relates to liability and workers' compensation risks written by CGU in the 1970s and the 1980s, where IAG continues to manage all related claims.

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect it in all territories in which it underwrites. The majority of these were favourably renewed at 30 June 2017.

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

COUNTER-PARTY RISK

The counter-party credit profiles for IAG's key reinsurances as at 1 January 2018 are:

- 90% of limits placed with 'A+' or higher rated entities for the calendar 2018 property catastrophe program (excluding the \$1bn in excess of \$7bn layer); and
- 100% of limits placed with 'A+' or higher rated entities for the casualty program.

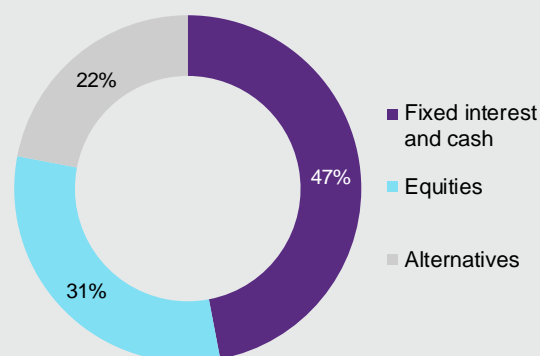
**Strong counter-party risk
profile maintained**

10. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of \$11.6bn as at 31 December 2017
- Overall investment allocation remains conservatively positioned
- Technical reserves of \$7.5bn invested in fixed interest and cash
- Shareholders' funds of \$4.1bn – growth asset weighting of 53%
- Sound investment return on technical reserves
- Higher shareholders' funds return influenced by strong equity market performance
- Strong credit quality maintained: 70% 'AA' or higher

Shareholders' Funds Mix



INVESTMENT PHILOSOPHY

IAG's investment philosophy is to:

- Manage the assets backing technical reserves and shareholders' funds separately;
- Invest the assets backing technical reserves, wherever possible, in securities with interest rate sensitivities that align to the underlying insurance liabilities;
- Invest shareholders' funds to maximise the return on risk-based capital, consistent with IAG's risk appetite and flexibility requirements; and
- Invest IAG's assets so that the contribution of investment risk to earnings volatility should not dominate the contribution from insurance risk.

Technical reserves invested to align with liability interest rate risk

INVESTMENT STRATEGIES

IAG's overall investment allocation remains conservatively positioned, with 81% of total investments in fixed interest and cash as at 31 December 2017. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 47%.

IAG's allocation to growth assets was 53% of shareholders' funds at 31 December 2017, compared to 48% at 31 December 2016 and 47% at 30 June 2017. Within the growth asset allocation, the allocation to international equities has increased to 21% (FY17: 17%), while alternative investments accounted for 22% of shareholders' funds, similar to the position at FY17.

Distinct investment strategies for technical reserves and shareholders' funds

GROUP INVESTMENT ASSETS

The Group's investments totalled \$11.6bn as at 31 December 2017, excluding investments held in joint ventures and associates, with 65% represented by the technical reserves portfolio. The decrease in total investments since 30 June 2017 (\$12.1bn) reflects the combined effect of:

- A \$0.6bn reduction in technical reserves, in response to further quota share and prior period reserve release effects; and
- A \$0.1bn increase in shareholders' funds, where operating earnings during the period exceeded dividend payments.

Total investments reduced to \$11.6bn, reflecting reserve release and quota share effects

GROUP INVESTMENT ASSETS	1H17 A\$bn	FY17 A\$bn	1H18 A\$bn
Technical reserves	8.3	8.1	7.5
Shareholders' funds	4.0	4.0	4.1
Total investment assets	12.3	12.1	11.6

10. INVESTMENTS

ASSET ALLOCATION

Since 30 June 2017, the main change to asset allocation has been a higher weighting to growth asset categories within shareholders' funds, and specifically in the area of international equities.

81% of investments in fixed interest and cash

GROUP ASSET ALLOCATION

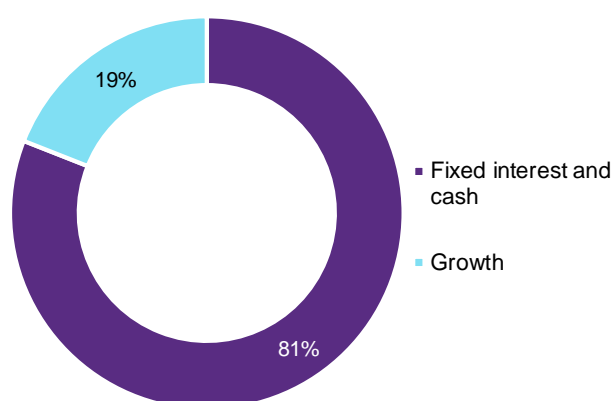
	1H17	FY17	1H18
	%	%	%
SHAREHOLDERS' FUNDS			
Australian equities	7.8	8.0	10.2
International equities	16.7	17.2	21.0
Alternatives	23.5	21.9	22.0
Fixed interest and cash	52.0	52.9	46.8
Total	100.0	100.0	100.0
TECHNICAL RESERVES			
Fixed interest and cash	100.0	100.0	100.0
Total	100.0	100.0	100.0
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES			
	%	%	%
Australian equities	2.6	2.6	3.6
International equities	5.5	5.7	7.5
Alternatives	7.7	7.3	7.8
Fixed interest and cash	84.2	84.4	81.1
Total	100.0	100.0	100.0

CREDIT QUALITY OF ASSETS

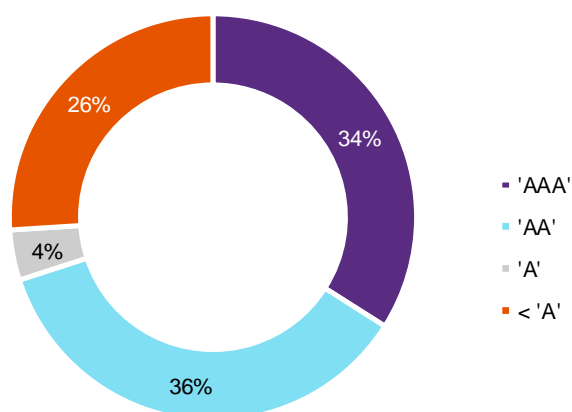
The credit quality of the Group's investment book remains strong, with approximately 70% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality maintained

GROUP ASSET ALLOCATION – 31 DECEMBER 2017



CREDIT QUALITY – 31 DECEMBER 2017



10. INVESTMENTS

SENSITIVITY ANALYSIS

As at 31 December 2017, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below and includes indirect sensitivities relating to alternative assets.

INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 31 DECEMBER 2017	Change in Assumption	
	+1% A\$m	-1% A\$m
Equity market values:		
Australian equities	5	(5)
International equities	8	(8)
Total equity market sensitivity	13	(13)
Interest rates:		
Assets backing technical provisions	(147)	156
Assets backing shareholders' funds	(30)	32
Total interest rate sensitivity	(177)	188

INVESTMENT PERFORMANCE

A sound investment return was achieved on the technical reserves portfolio in 1H18, with related investment income of \$127m including:

- An unrealised capital loss of \$16m at period end (1H17: \$87m loss), primarily associated with an upward shift in the yield curve since 30 June 2017. The 3-year government bond yield rose to 2.13% at 31 December 2017, from 1.91% at 30 June 2017;
- A positive impact of \$47m from the narrowing of credit spreads, compared to a positive effect of \$5m in 1H17; and
- An adverse foreign exchange impact of \$14m, including that from the hedge associated with reinsurance recoveries in respect of the New Zealand earthquakes in FY11, which are held by the offshore captive in Singapore. An equivalent adverse effect, of \$2m, was recorded in 1H17.

The average yield was slightly lower than that recorded in 1H17.

The portfolio continues to be aligned with the average weighted duration of the Group's claims liability, which is around two years.

Investment returns on shareholders' funds were supported by the strong performance of equity markets, both domestic and offshore, in 1H18. The broader Australian index (S&P ASX200 Accumulation) delivered a positive return of 8.4% over the six months ended 31 December 2017 (1H17: 10.6%), while the MSCI World Total Return Index (AUD Hedged) registered a gain of 10.0% (1H17: 10.6%).

INVESTMENT INCOME	1H17 A\$m	2H17 A\$m	1H18 A\$m
Technical reserves	37	204	127
Shareholders' funds	105	144	138
Total investment income	142	348	265

Sound return on technical reserves

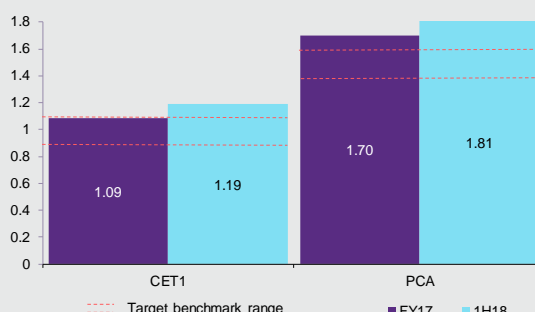
Higher shareholders' funds return owing to relatively strong equity markets

11. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
- CET1 multiple of 1.19 vs. benchmark of 0.9-1.1
- PCA multiple of 1.81 vs. benchmark of 1.4-1.6
- Capital mix within targeted ranges – debt and hybrids 31.1% of total tangible capitalisation
- S&P 'AA-' rating of core operating subsidiaries reaffirmed in January 2018

Regulatory Capital



BALANCE SHEET

	1H17 A\$m	FY17 A\$m	1H18 A\$m
Assets			
Cash and cash equivalents	378	424	436
Investments	12,314	12,136	11,580
Investments in joint ventures and associates	489	505	510
Trade and other receivables	3,767	4,153	3,845
Reinsurance and other recoveries on outstanding claims	4,940	5,258	5,235
Deferred insurance expenses	2,869	2,770	3,597
Goodwill and intangible assets	3,366	3,332	3,263
Other assets	1,143	1,019	990
Total assets	29,266	29,597	29,456
Liabilities			
Outstanding claims	11,528	11,371	10,948
Unearned premium	6,163	6,331	6,152
Interest bearing liabilities	1,778	1,624	1,608
Trade and other payables	2,376	2,434	2,845
Other liabilities	810	1,045	1,078
Total liabilities	22,655	22,805	22,631
Net assets	6,611	6,792	6,825
Equity			
Equity attributable to holders of ordinary shares	6,388	6,562	6,598
Non-controlling interests	223	230	227
Total equity	6,611	6,792	6,825

IAG's total assets at 31 December 2017 were \$29,456m compared to \$29,597m at 30 June 2017. The net reduction of \$141m includes:

- A \$556m decrease in investments, including payment of the final dividend (\$473m), a further quota share-related reduction, an adverse foreign exchange movement and net inflows from operating activities;
- A \$308m reduction in trade and other receivables, largely reflecting refunds in respect of NSW CTP and lower unsettled investment transactions at balance date; and
- An \$827m increase in deferred insurance expenses, primarily reflecting the initial impact on 31 December 2017 of the new combined 12.5% quota share agreements.

The other assets category represents the aggregate of deferred levies and charges, deferred tax assets, property and equipment and other assets.

IAG's total liabilities at 31 December 2017 were \$22,631m, compared to \$22,805m at 30 June 2017. The net reduction of \$174m includes:

Balance sheet movements include initial effects from additional combined 12.5% quota share agreements

11. BALANCE SHEET & CAPITAL

- A \$423m reduction in outstanding claims, reflecting prior period reserve releases and further payments in respect of the FY11 Canterbury earthquake events;
- A \$179m decrease in unearned premium, including the effect of lower GWP growth in the period which embraced the impacts from NSW CTP reform measures, ESL collection changes and discontinued business; and
- A \$411m increase in trade and other payables, largely owing to the identification on 31 December 2017 of reinsurance payable under the new combined 12.5% quota share agreements.

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

IAG shareholders' equity (excluding non-controlling interests) increased from \$6,562m at 30 June 2017 to \$6,598m at 31 December 2017, predominantly reflecting the net effect of:

- Retained earnings in 1H18; and
- Payment of the 20 cents per share final dividend (\$473m) in October 2017.

CAPITAL

Capital Adequacy

IAG remains strongly capitalised, with regulatory capital of \$4.7bn at 31 December 2017. At that date, IAG's Common Equity Tier 1 (CET1) ratio was 1.19 times the Prescribed Capital Amount (PCA), compared to a targeted range of 0.9 to 1.1 times and a regulatory requirement of 0.6 times. This has increased from the 1.09 multiple reported at 30 June 2017, owing to the net effect of:

- Retained earnings in 1H18;
- Payment of the FY17 final dividend of 20 cents per share;
- An initial favourable effect of 4bps on 31 December 2017 from the combined 12.5% quota shares, as a lower regulatory risk charge reflects reduced forward insurance liabilities;
- A modest further favourable impact from the Berkshire Hathaway quota share arrangement;
- An increased excess technical provisions position over liabilities; and
- The adverse impact of a higher growth assets weighting in shareholders' funds.

Unutilised tax losses stemming from the Canterbury earthquakes in New Zealand in FY11 still exceed \$400m. A small reduction, and associated regulatory capital benefit, occurred in 1H18.

At 31 December 2017 IAG's PCA ratio was 1.81, compared to a targeted range of 1.4 to 1.6 times.

After allowance for the 1H18 dividend of 14 cents per share, which will be paid at the end of March 2018, the CET1 multiple at 31 December 2017 would be at the upper end of IAG's benchmark range, while the PCA multiple would be above the equivalent target range.

IAG is strongly capitalised

11. BALANCE SHEET & CAPITAL

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H17 A\$m	FY17 A\$m	1H18 A\$m
Common Equity Tier 1 Capital (CET1)			
Ordinary shares	7,082	7,082	7,082
Reserves	25	17	(26)
Retained earnings	(680)	(499)	(428)
Technical provisions in excess of liabilities	480	417	452
Minority interests	223	230	227
Less: Deductions	(4,425)	(4,359)	(4,207)
Total Common Equity Tier 1 Capital	2,706	2,888	3,100
Additional Tier 1 Capital			
Hybrid equities	887	679	679
Total Tier 1 Capital	3,593	3,567	3,779
Tier 2 Capital			
Subordinated term notes	907	959	943
Total Tier 2 Capital	907	959	943
Total Regulatory Capital	4,500	4,526	4,722
Prescribed Capital Amount (PCA)			
Insurance risk charge	1,313	1,285	1,106
Insurance concentration risk charge	200	200	169
Diversified asset risk charge	1,227	1,493	1,620
Aggregation benefit	(610)	(671)	(642)
Operational risk charge	350	354	355
Total Prescribed Capital Amount	2,480	2,661	2,608
PCA multiple	1.81	1.70	1.81
CET1 multiple	1.09	1.09	1.19

Significant movements within the composition of IAG's regulatory capital position since 30 June 2017 include:

- A \$35m increase in excess technical provisions, reflecting cumulative rate increases and stronger forward-looking profitability;
- A \$179m reduction in insurance risk charge from the combination of prior period reserve releases and the initial balance date effect from the combined 12.5% quota share agreements; and
- A \$127m increase in diversified asset risk charge, primarily from a higher growth asset weighting within shareholders' funds.

Interest Bearing Liabilities

IAG's interest bearing liabilities stood at \$1,608m at 31 December 2017, compared to \$1,624m at 30 June 2017. The small net decrease reflects the foreign exchange movement on a NZ\$-denominated debt issue.

Composition of interest-bearing liabilities unchanged

INTEREST BEARING LIABILITIES	1H17 A\$m	FY17 A\$m	1H18 A\$m
Subordinated debt	687	684	668
Convertible Preference Shares	153	-	-
Reset Exchangeable Securities	550	550	550
Capital Notes	404	404	404
Capitalised transaction costs/other	(16)	(14)	(14)
Total interest bearing liabilities	1,778	1,624	1,608

11. BALANCE SHEET & CAPITAL

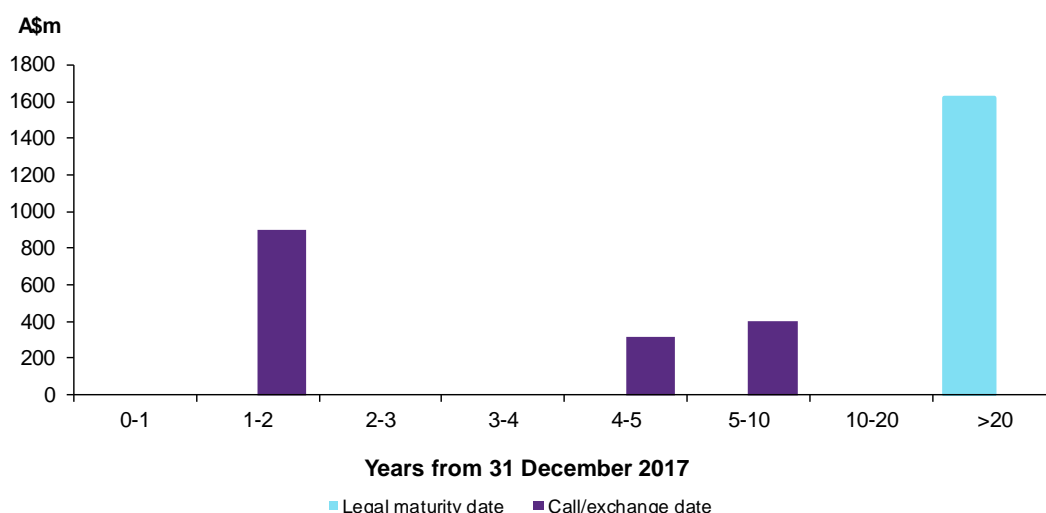
DEBT & HYBRID CAPITAL	Principal amount		Yield %	Rate	Exchange date	S&P rating
	\$m	A\$m				
Subordinated term notes ¹	A\$350	350	4.59%	Variable	Mar-19	'A-'
Subordinated fixed rate notes	NZ\$350	318	5.15%	Fixed	Jun-22	'BBB'
Total debt		668				
Reset Exchangeable Securities (IANG) ²	A\$550	550	4.04%	Variable	Dec-19	'BBB+'
Capital Notes (IAGPD) ³	A\$404	404	4.53%	Variable	Jun-23	'N/R'
Total hybrid capital		954				
Total debt & hybrid capital (pre-capitalised transaction costs)		1,622				

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

² The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

³ The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

GROUP DEBT MATURITY PROFILE



Capital Mix

IAG measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. It remains IAG's intention to have a capital mix in the following ranges over the longer term:

- Ordinary equity (net of goodwill and intangibles) 60-70%; and
- Debt and hybrids 30-40%.

At 31 December 2017, IAG's capital mix was within targeted ranges. Debt and hybrids represented 31.1% of total tangible capitalisation, which is at the lower end of the targeted range.

Capital mix within targeted ranges

CAPITAL MIX	1H17 A\$m	FY17 A\$m	1H18 A\$m
Shareholder equity	6,611	6,792	6,825
Intangibles and goodwill	(3,366)	(3,332)	(3,263)
Tangible shareholder equity	3,245	3,460	3,562
Interest bearing liabilities	1,778	1,624	1,608
Total tangible capitalisation	5,023	5,084	5,170
Debt to total tangible capitalisation	35.4%	31.9%	31.1%

11. BALANCE SHEET & CAPITAL

Capital Management

IAG's key capital measure is its CET1 ratio. It remains IAG's intent to manage its CET1 capital broadly in line with the relevant targeted benchmark range over the longer term. Given its strong capital position at 31 December 2017, and further favourable quota share and retained earnings effects anticipated in the short to medium term, IAG will provide an update on future capital management intent later in calendar 2018.

IAG has \$900m of debt and hybrid securities which, at IAG's election and subject to APRA's approval, may be called in calendar 2019. Subject to market conditions, IAG may issue a new Tier 2 subordinated debt instrument in FY18.

IAG may issue new Tier 2 instrument in FY18

Credit Ratings

On 25 January 2018, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' insurer financial strength and issuer credit ratings in respect of IAG's core operating subsidiaries, as well as its 'A' issuer credit rating of the non-operating holding company, Insurance Australia Group Limited. The outlook on all entities is stable.

APPENDIX A BRAND PORTFOLIO

PORTFOLIO OF INSURANCE BRANDS AND MARKETS



100%-owned unless indicated.

1. IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.
 2. IAG owns 100% of WFI Insurance Ltd (WFI), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with WFI.
 3. IAG holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and N4 brands.
 4. IAG owns 49% of the general insurance arm of Malaysia-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.
 5. IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.
 6. IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.
 7. IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.
- All ownership percentages are as at 31 December 2017.

APPENDIX B IAG BUSINESS SNAPSHOT

AUSTRALIA

• Consumer

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

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

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

• Business

Business products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents and financial institutions, and directly through call centre and online channels. Business is a leading provider of business and farm insurance in Australia.

Business operates across Australia under the following brands:

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

NEW ZEALAND

IAG's New Zealand business is the leading general insurance provider in the country in both the direct and broker / agent channels. Insurance products are provided directly to customers, primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley Insurance brands. Personal products and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.

New Zealand also offers travel insurance, which is underwritten by a third party.

Short tail insurance

- Motor vehicle
- Home and contents
- Lifestyle and leisure insurance, such as boat, veteran and classic car and caravan

Long tail insurance

- Compulsory Third Party (motor injury liability)

Short tail insurance

- Business packages
- Farm and crop
- Commercial property
- Construction and engineering
- Niche insurance, such as consumer credit
- Commercial motor and fleet motor
- Marine

Long tail insurance

- Workers' compensation
- Professional indemnity
- Directors' and officers'
- Public and products liability

Short tail insurance

- Motor vehicle
- Home and contents
- Commercial property, motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat and caravan
- Rural and horticultural
- Marine

Long tail insurance

- Personal liability
- Commercial liability

APPENDIX B IAG BUSINESS SNAPSHOT

ASIA

IAG's Asia division comprises interests in five general insurance businesses in Asia:

- A 98.6% beneficial interest in Safety Insurance in Thailand;
- 49% of AmGeneral Holdings Berhad, a joint venture in Malaysia;
- 26% of SBI General Insurance Company, a joint venture in India;
- 63.17% of AAA Assurance Corporation in Vietnam; and
- 80% of PT Asuransi Parolamas in Indonesia.

While IAG retains a diluted 16.9% interest in Bohai Property Insurance Company Ltd, based in China, from FY16 this investment has been included in IAG's shareholders' funds investment portfolio and is no longer being treated as an equity-accounted associate in the Asia division.

APPENDIX C KEY RELATIONSHIPS

GLOBAL

BERKSHIRE HATHAWAY

Berkshire Hathaway Inc. is one of the largest listed companies in the world, by market capitalisation. It owns a diversified portfolio of businesses and investments, of which interests in the insurance and reinsurance industries form a significant part.

BERKSHIRE HATHAWAY INC.

IAG has had a transactional relationship with Berkshire Hathaway since 2000, primarily in the area of reinsurance. That relationship has developed and deepened over the years.

In June 2015, IAG formed a strategic partnership with Berkshire Hathaway, in a logical development of the relationship between the two parties. It comprises:

- An exclusive operating relationship in Australia and New Zealand;
- A ten-year, 20% whole-of-account quota share arrangement, which commenced 1 July 2015; and
- A \$500m equity placement to Berkshire Hathaway, which represented approximately 3.7% of IAG's expanded issued capital at the point of issue in June 2015.

Benefits to IAG include the harnessing of complementary operating capabilities, reduced earnings volatility via the quota share and significant capital flexibility.

AUSTRALIA

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED

National Roads and Motorists' Association Limited was established in 1920 and is a mutual organisation with over 2.6 million members. Until August 2000 it owned the NRMA Insurance business. At that time National Roads and Motorists' Association Limited and its members received IAG shares as consideration for the NRMA Insurance business to demutualise. The NRMA Insurance business now forms the majority of IAG's Australian Consumer operations.



Under the terms of the demutualisation agreements, National Roads and Motorists' Association Limited and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- National Roads and Motorists' Association Limited – roadside assistance and other motoring services (except smash repairs), motoring products, transportation and travel.
- IAG (NRMA Insurance) – insurance and financial services and any other good or service not specifically reserved for National Roads and Motorists' Association Limited.

In addition, both parties cannot, under any brand, carry out activities engaged in by the other at the point of demutualisation.

IAG continues to provide certain services to National Roads and Motorists' Association Limited, notably those in respect of the NRMA branch network which is operated and managed by IAG. In 2016, National Roads and Motorists' Association Limited started selling NRMA Insurance's motor insurance products. The two organisations retain a strong and closely aligned relationship, with a focus on delivering a consistent NRMA brand customer experience.

APPENDIX C KEY RELATIONSHIPS

RACV

RACV is a mutual organisation founded in 1903. It provides a diverse range of services to more than two million members. These services include: insurance; finance; emergency roadside and home assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.



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

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

COLES INSURANCE

IAG established a ten-year distribution agreement with Coles (which is owned by Wesfarmers Limited) to underwrite Coles Insurance as of 30 June 2014. This was part of a transaction which saw IAG acquire the former Wesfarmers Insurance underwriting operations at that date. Under this agreement, IAG's Australia Division underwrites car and home products for Coles Insurance in Australia.



ASIA

AMBANK GROUP

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

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



STATE BANK OF INDIA

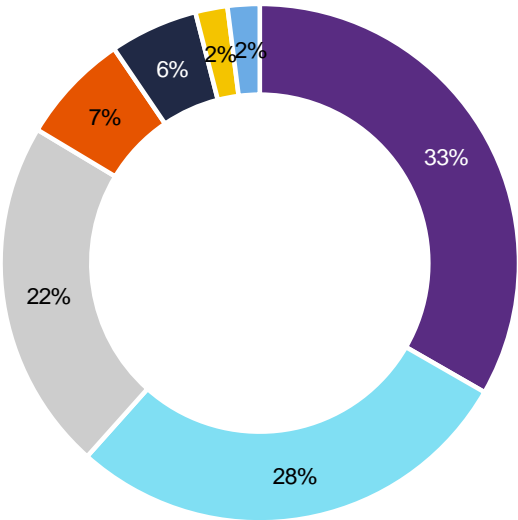
State Bank of India (SBI) is India's largest and oldest bank, with origins back to 1806. It offers a broad range of banking and financial services, and has a savings account base of over 400 million customers and in excess of 24,000 branches across all states of India.

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



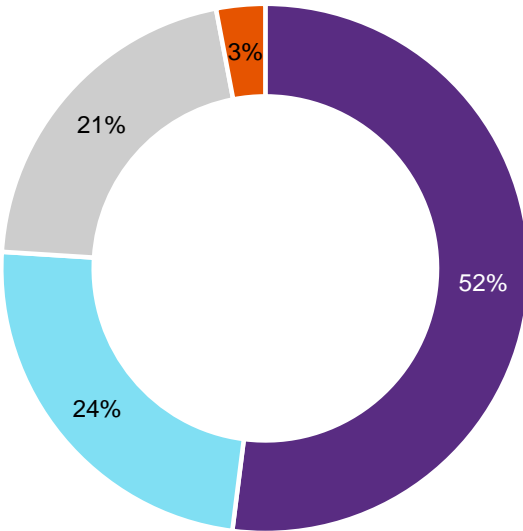
APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT — 1H18



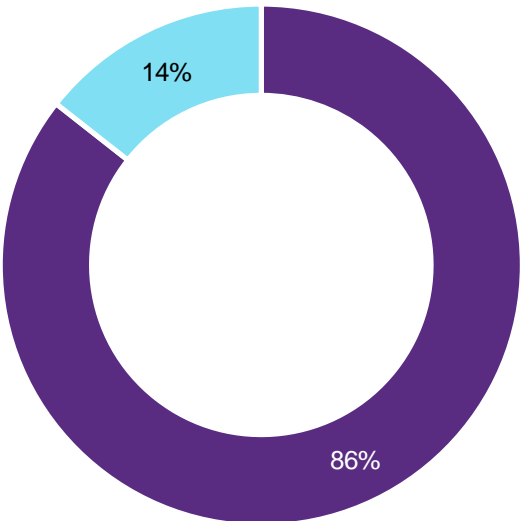
- Motor
- Home
- Short tail commercial
- CTP/motor liability
- Liability
- Other short tail
- Workers' compensation

IAG GROUP GWP BY BUSINESS — 1H18



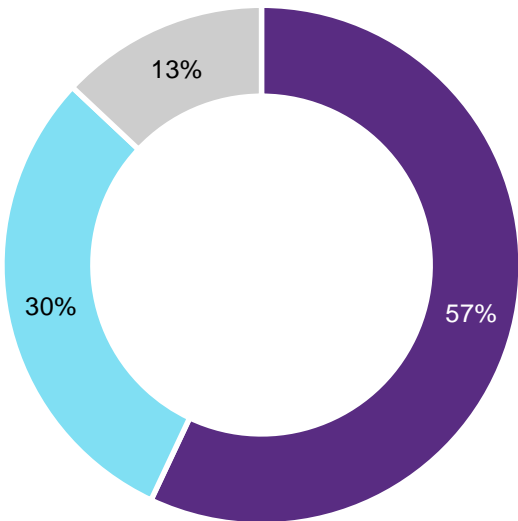
- Australia Consumer
- Australia Business
- New Zealand
- Asia

IAG GROUP GWP BY TAIL — 1H18



- Short tail
- Long tail

IAG GROUP GWP BY CHANNEL — 1H18



- Direct
- Intermediated
- Affinity

APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2017 is set out below. It does not include announcements of changes in directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements if further information is required. These are available at <http://www.iag.com.au>.

19-JUL-17 IAG CREATES SINGLE AUSTRALIAN DIVISION

IAG announced the creation of a single Australian division with Mark Milliner, currently IAG Chief Operating Officer, leading it as CEO Australia with immediate effect. The division simplifies IAG's operating model by bringing together the former Consumer, Business, Operations and Satellite divisions, and centralising accountability for the customer, product, distribution and operations functions for IAG's Australian brands.

20-JUL-17 GENERAL INSURANCE LICENCE CONSOLIDATION APPROVED

IAG advised it would consolidate its nine Australian general insurance licences into two after receiving approval from the Federal Court of Australia. This is part of its work to become a simpler, more efficient and agile business. There will be no impact on IAG's consolidated regulatory capital.

23-AUG-17 IAG DELIVERS SOUND RESULTS FOR FY17

IAG announced an FY17 insurance profit of \$1.3bn and a reported insurance margin of 14.9%, a 6.8% and 60bps respective increase on FY16. This improvement was driven by higher than expected prior period reserve releases, partially offset by a natural peril claim cost increase which resulted in an allowance overrun of over \$140m. GWP grew by 3.9% to \$11.8bn, with like-for-like growth in excess of 4%. IAG's underlying insurance margin fell 2.1 percentage points to 11.9%, and included the adverse impact of higher claim costs in its short tail motor businesses in Australia and New Zealand, and elevated large losses in its commercial classes. Net profit after tax increased 48.6% to \$929m and included a significantly higher contribution from investment income on shareholders' funds. A final fully franked dividend of 20cps brought the full year dividend to 33 cps, equating to a cash payout ratio of 79%. IAG's capital position at 30 June 2017 was strong, with its CET1 ratio 1.09 against a target benchmark of 0.9-1.1. IAG advised it expects to report an improved underlying operating performance in FY18, with low single digit GWP growth anticipated and a reported margin in the range of 12.5-14.5%.

5-SEP-17 IAG DIRECTOR TO RETIRE AFTER 2017 AGM

IAG announced that non-executive director Alison Deans had advised her intention to retire from the company's board following the annual general meeting.

5-SEP-17 NOTICE OF ANNUAL GENERAL MEETING

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

21-SEP-17 IAG CHIEF RISK OFFICER TO RETIRE

IAG announced its Chief Risk Officer, Clayton Whipp, intended to retire from the company by the end of March 2018 and that an international search is underway to replace him.

4-OCT-17 DIVIDEND REINVESTMENT PLAN PRICING

IAG advised that ordinary shares to be allocated under the Dividend Reinvestment Plan would be priced at \$6.3394 per share for the dividend payable on 9 October 2017.

20-OCT-17 ANNUAL GENERAL MEETING (AGM)

The Chairman's AGM address and CEO's presentation were lodged.

APPENDIX E KEY ASX RELEASES

23-NOV-17 PUBLICATION OF INSTITUTION LEVEL STATISTICS BY APRA

IAG noted the initial publication by APRA of General Insurance Institution-level Statistics (GIILS) on a quarterly basis. IAG advised it does not intend to provide quarterly performance disclosure and will continue to publish its results on a six-monthly basis, while highlighting reasons why the GIILS data is not reconcilable to the normal reporting format employed by IAG for its Australian business.

8-DEC-17 IAG IMPROVES CAPITAL EFFICIENCY AND REDUCES EARNINGS VOLATILITY WITH QUOTA SHARE AGREEMENTS

IAG announced it had entered into three agreements to quota share a combined 12.5% of its consolidated business from 1 January 2018, improving IAG's capital mix through placing greater emphasis on the application of more efficient reinsurance capital. The agreements 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. 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%. Based on the mid-point of IAG's CET1 benchmark, the quota share agreements are expected to result in an approximately \$435m reduction in IAG's regulatory capital requirement over a three-year period, with the vast majority of this expected to occur within 18 months, including over \$100m identified at 31 December 2017. 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 250bps per annum, driven by a lower net earned premium. IAG's FY18 results will include only six months of this effect, and accordingly IAG raised its FY18 reported insurance margin guidance by 125bps, to 13.75-15.75%.

11-DEC-17 2018 FINANCIAL CALENDAR

IAG provided details of its financial calendar for 2018.

3-JAN-18 IAG FINALISES 2018 CATASTROPHE REINSURANCE

IAG advised it had finalised its catastrophe reinsurance program for the 2018 calendar year, with construction similar to prior years and up to \$8bn of gross reinsurance protection. This has been placed to the extent of 67.5% after allowance for the new 12.5% quota share agreements, as well as the pre-existing 20% agreement with Berkshire Hathaway. The combination of all catastrophe covers in place at 1 January 2018 results in maximum first event retentions (post-quota share) of \$169m for Australia, NZ\$169m for New Zealand, \$17m for Thailand, and approximately \$1m for Vietnam and Indonesia.

APPENDIX F GLOSSARY

The following is a glossary of the terms used in this report, including those commonly used in the insurance industry.

AFFINITY	A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.
APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange Limited.
CAPITAL NOTES	Capital Notes were issued by IAG in December 2016 and are quoted as IAGPD on ASX.
CASH EARNINGS	IAG defines cash earnings as net profit after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of IAG's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.
CASH ROE	IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles.
COMBINED RATIO	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
COMMON EQUITY TIER 1 CAPITAL (CET1)	The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.
CREDIT SPREAD	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
DEFERRED ACQUISITION COSTS (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DISCOUNT RATE	In accordance with Australian Accounting Standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.
DRP	Dividend Reinvestment Plan, that permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.

APPENDIX F GLOSSARY

EXCHANGE COMMISSION	A fee, comprising fixed and variable components, paid under a quota share agreement by a reinsurance company to a ceding insurer to cover administrative costs, acquisition expenses and access to the underwriting profits of the ceded business.
EXPENSE RATIO	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
GROSS EARNED PREMIUM	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
GROSS WRITTEN PREMIUM (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
IFRS	International Financial Reporting Standards.
IMMUNISED RATIO	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
INSURANCE MARGIN	The ratio of insurance profit to net earned premium.
INSURANCE PROFIT	Underwriting result plus investment income on assets backing technical reserves.
LEVIES	Levies are taxes on insurers to assist government funding for fire and emergency services. They are an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying levies, usually in arrears. In Australia, these comprise the Emergency Services Levy (ESL) in NSW and the Fire Services Levy (FSL) in Tasmania (commercial property lines only). These levies are included in GWP and expenses for reporting purposes.
LIABILITY ADEQUACY TEST (LAT)	Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the writedown of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability.
LONG TAIL	Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.
LOSS RATIO	The ratio of net claims expense to net earned premium.

APPENDIX F GLOSSARY

MER	Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.
NATURAL PERILS	Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.
NATURAL PERILS ALLOWANCE	The natural perils expense forecast to be incurred within a specified period of time based upon previous experience and management judgement, which is reflected in the pricing of related insurance products for the same period.
NATURAL PERILS EXPENSE	Losses arising from natural perils after deducting any applicable reinsurance recoveries.
NET CLAIMS EXPENSE	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
NET EARNED PREMIUM (NEP)	Gross earned premium less reinsurance expense.
PCA	Prescribed Capital Amount, as defined by APRA under its LAGIC regime.
PROBABILITY OF ADEQUACY (POA)	The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency.
QUOTA SHARE	A form of reinsurance in which an insurer cedes an agreed percentage of every risk it insures that falls within a class or classes of business, subject to a reinsurance treaty.
RECOVERIES	The amount of claims recovered from reinsurers, third parties or salvage.
RESET EXCHANGEABLE SECURITIES (RES)	Reset Exchangeable Securities (RES) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG.
RISK FREE RATE	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.
RISKS IN FORCE	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
ROE	Return on equity, being net profit after tax divided by average equity attributable to owners of the company.

APPENDIX F GLOSSARY

SHAREHOLDERS' FUNDS	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
SHORT TAIL	Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
SME	Small-to-medium enterprise.
TECHNICAL RESERVES	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.
TSR	Total shareholder return.
UNDERLYING MARGIN	<p>IAG defines underlying margin as the reported insurance margin adjusted for:</p> <ul style="list-style-type: none">• Net natural peril claim costs less related allowance;• Reserve releases in excess of 1% of NEP; and• Credit spread movements. <p>The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.</p>
UNDERWRITING	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
UNDERWRITING EXPENSES	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
UNDERWRITING PROFIT / (LOSS)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
UNEARNED PREMIUM	Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.

DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**): 2,367,524,344 on issue at 31 December 2017
- Reset Exchangeable Securities (**IANG**): 5,500,000 on issue at 31 December 2017
- Capital Notes (**IAGPD**): 4,041,265 on issue at 31 December 2017

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ\$350m outstanding at 31 December 2017

KEY DATES

Interim dividend – ordinary shares

- | | |
|--------------------|------------------|
| • Ex-dividend date | 20 February 2018 |
| • Record date | 21 February 2018 |
| • DRP record date | 22 February 2018 |
| • Payment date | 29 March 2018 |

Payment date for IANG, IAGPD and IAGFB quarterly distributions	15 March 2018
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Payment date for IANG, IAGPD and IAGFB quarterly distributions	15 June 2018
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Announcement of full year results to 30 June 2018	15 August 2018*
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Final dividend – ordinary shares

- | | |
|--------------------|--------------------|
| • Ex-dividend date | 21 August 2018* |
| • Record date | 22 August 2018* |
| • DRP record date | 23 August 2018* |
| • Payment date | 27 September 2018* |

Payment date for IANG, IAGPD and IAGFB quarterly distributions	17 September 2018
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Annual General Meeting	26 October 2018
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Payment date for IANG, IAGPD and IAGFB quarterly distributions	17 December 2018
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Announcement of half year results to 31 December 2018	6 February 2019*
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**These dates are indicative only and are subject to change. Any change will be announced on ASX.*

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