Investor report
1H19

6 February 2019

Insurance Australia Group Limited ABN 60 090 739 923

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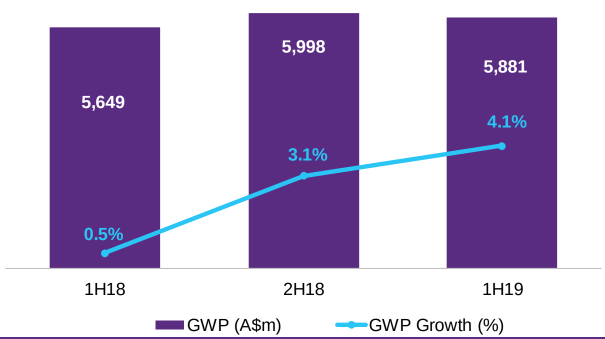
Local currencies have been used where possible. Prevailing exchange rates have been used to convert local currency amounts into Australian dollars, where appropriate.

CONTENTS

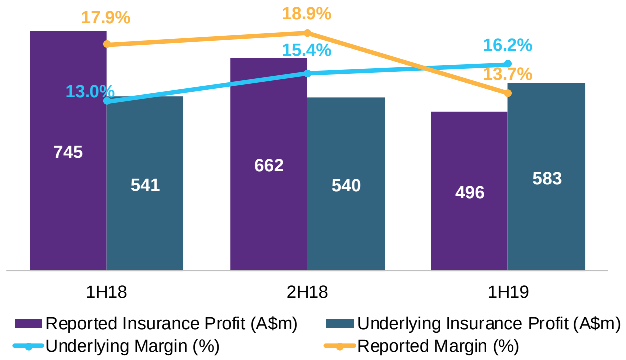
1H19 RESULTS

KEY RESULTS	1H18 A$m	2H18 A$m	1H19 A$m	1H19 vs 1H18 Mvt
Gross written premium (GWP)	**5,649**	**5,998**	**5,881**	**+4.1%**
Net earned premium (NEP)	4,167	3,504	3,611	-13.3%
Insurance profit	**745**	**662**	**496**	**-33.4%**
Net profit after tax (NPAT)	551	372	500	-9.3%
Cash earnings	**630**	**404**	**319**	**-49.4%**
Reported insurance margin	17.9%	18.9%	13.7%	-420bps
Underlying insurance margin	**13.0%**	**15.4%**	**16.2%**	**+320bps**
Diluted EPS (cents)	22.60	15.58	20.48	-9.4%
Diluted cash EPS (cents)	25.73	16.86	13.40	-47.9%
Cash return on equity (ROE)	19.1%	12.2%	9.8%	-930bps
Dividend (cents)	**14.0**	**20.0**	**12.0**	**-14.3%**
Common Equity Tier 1 Capital (CET1) multiple	1.19	1.26	1.18	-1bps

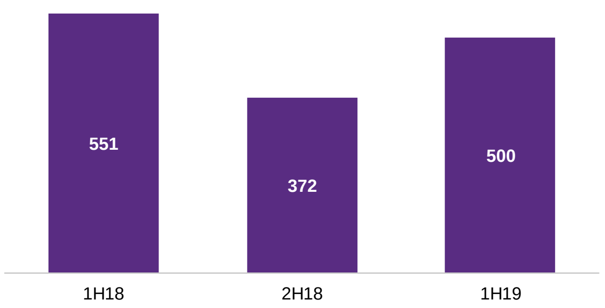
GWP GROWTH



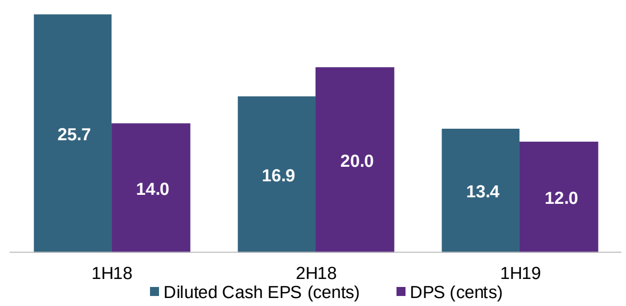
INSURANCE PROFIT & MARGIN



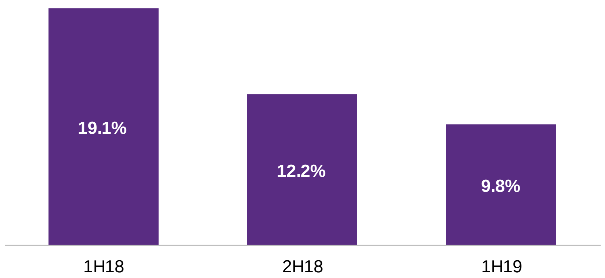
NET PROFIT AFTER TAX (A$M)



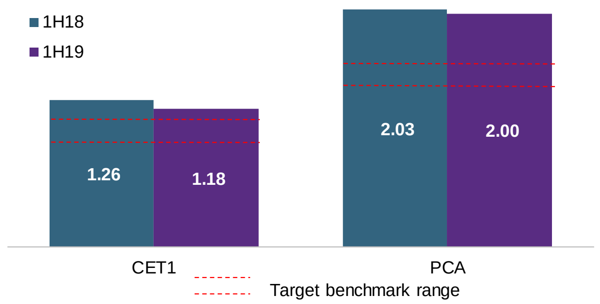
DILUTED CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS (VS. 1H18)

- Improvement in 1H19 underlying performance, in line with expectations
- Gross written premium (GWP) growth of 4.1%, largely rate-driven
- Higher underlying insurance margin[1] of 16.2% (vs. 15.4% in 2H18)
- Optimisation program benefits emerging, partially offset by increased regulatory and compliance costs
- Lower reported margin of 13.7% – over 500bps adverse movement from net natural peril claim costs
- Net profit after tax of $500m, includes profit on sale of Thailand operations of over $200m
- Near-50% contraction in cash earnings to $319m – absorbs markedly lower shareholders' funds income
- 12 cent interim dividend fully franked (vs. 14 cents) – cash payout ratio of nearly 87%
- Strong capital position maintained after completion of $592m capital management initiative
- FY19 guidance reaffirmed: GWP growth of 2-4%, reported insurance margin of 16-18%

1H19 OVERVIEW

Further improvement in underlying performance

IAG's underlying performance continued to improve in 1H19, and was broadly in line with the expectations held at the outset of the financial year. The 1H19 underlying results comprise:

- A sound performance from Australia, as short tail improvement was countered by lower long tail (CTP) profitability in Consumer, and further progress was evident in Business; and
- A continued strong performance in New Zealand, where solid GWP growth was supported by sustained margins.

Overall GWP growth of 4.1% was amplified by a favourable foreign exchange translation effect in New Zealand. While GWP growth was largely rate-driven, some drag was incurred from New South Wales (NSW) CTP reform impacts and ceased business activities.

Improvement in IAG's underlying insurance margin remains evident, increasing to 16.2% from 15.4% in 2H18 and driven by the combination of:

- Earned rate increases, which are at least matching claims inflation;
- Emerging net benefits from IAG's optimisation program; and
- Some offset from increasing regulatory and compliance costs.

It remains IAG's expectation that ~$100m of pre-tax improvement will be derived from the optimisation program in FY19, compared to FY18.

A partial offset to this is an anticipated increase in regulatory and compliance costs. By the conclusion of FY19, these are expected to have risen by around $30m per annum (pre-quota share), including an increase of $20m in FY19 compared to FY18.

A lower reported margin of 13.7% (1H18: 17.9%) primarily reflected an adverse net natural peril claim cost outcome, of $110m above allowance and centred on the December 2018 Sydney hailstorm event. Lower prior period reserve releases and an adverse credit spread movement also played a part.

While IAG has sharpened its focus on its home territories of Australia and New Zealand, options for its remaining interests in Asia (principally Malaysia and India) continue to be assessed. The sale of Thailand was completed at the end of August 2018, realising a net profit in excess of $200m.

[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

GROSS WRITTEN PREMIUM (GWP)

GWP growth of over 4%

1H19 GWP increased 4.1% to $5,881m, comprising:

- Growth of 3.4% in Australia (to $4,606m); and
- Growth of 6.6% in New Zealand (to $1,268m), aided by a favourable foreign exchange translation effect of over 100bps.

GWP growth was largely rate-driven, with premium rate increases at least matching claim inflation pressures.

Overall volumes were relatively flat, however growth was achieved in short tail motor, NSW CTP and workers' compensation. Commercial volumes as a whole shrank, reflecting ongoing remediation activities.

Some drag on top line performance was incurred from NSW CTP scheme reform effects, as well as the absence of ceased or exited business activities, including retail warranty and consumer credit.

UNDERLYING INSURANCE MARGIN

Improved underlying margin

IAG's underlying insurance margin increased to 16.2%, compared to 15.4% in 2H18. A more substantial increase against 1H18 (13.0%) included approximately 250bps of uplift from the 12.5% quota share agreements which commenced on 1 January 2018.

Short tail personal lines' profitability has remained strong, as earned rate increases at least match ongoing increases in average claim costs.

Further improvement in commercial lines' profitability has been recorded, as rate and remediation activity was complemented by subsiding large loss experience in Australian property classes, back to more normal levels.

Long tail CTP profitability was lower than 1H18, reflecting the capped profitability of the new scheme in NSW.

Across IAG, the business is beginning to increasingly benefit from the outcomes of the group-wide optimisation program, as related one-off costs dissipate. A net reduction in gross operating costs of around $40m was realised in 1H19, compared to the position at the end of FY16 which formed the basis of the program's targets. Most of this attaches to the insurance profit.

A countervailing force is increased regulatory and compliance costs, which are expected to be an ongoing feature of future periods. In 1H19 an approximately $15m increase in regulatory and compliance costs was incurred (vs. 1H18), including those stemming from the Royal Commission and the risk governance self-assessment requested by the Australian Prudential Regulation Authority (APRA).

REPORTED INSURANCE MARGIN

Lower reported margin of 13.7%, primarily owing to adverse net perils impact

IAG's reported margin of 13.7% was markedly lower than 1H18 (17.9%). Contributing to this outcome were:

- $414m of net claim costs arising from natural peril events, which exceeded the period's allowance by $110m and was in line with the range indicated in IAG's perils update on 21 December 2018. This contrasted with a favourable outcome against allowance of $77m in 1H18, and in isolation this movement reduced the reported margin by over 500bps;
- Lower net prior period reserve releases of $83m (1H18: $122m) which were broadly in line with expectations and which represented 2.3% of NEP, compared to 2.9% in 1H18; and

1. EXECUTIVE SUMMARY

- An unfavourable swing in credit spread impact of over $70m, with an adverse effect of $24m in 1H19 contrasting with a favourable impact of $47m in 1H18.

DIVISIONAL HIGHLIGHTS

	1H18				1H19			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
DIVISION	A$m	%	%	%	A$m	%	%	%
Australia	4,453	(0.7)	18.8	11.4	4,606	3.4	10.7	14.8
Consumer	*3,052*	*(0.3)*	*23.0*	*13.9*	*3,143*	*3.0*	*13.2*	*17.3*
Business	*1,401*	*(1.5)*	*10.4*	*6.5*	*1,463*	*4.4*	*5.8*	*10.0*
New Zealand	1,190	5.5	14.2	17.4	1,268	6.6	24.9	20.0
Corporate & Other	6	nm	nm	nm	7	nm	nm	nm
Total Group	**5,649**	**0.5**	**17.9**	**13.0**	**5,881**	**4.1**	**13.7**	**16.2**

Sound performance in Australia, while New Zealand continues to perform strongly

Australia (78% of GWP) produced a sound performance which saw GWP growth of 3.4% from a mixture of personal and commercial line inputs and a stronger underlying margin of 14.8%. GWP growth was largely derived from increased rates, as Consumer met claims inflation pressures in both motor and home, and Business continued to drive rate activity to help restore profitability. Offsets came in the form of NSW CTP reform effects, which have resulted in significantly lower rates, and divested or ceased business activities, such as retail warranty and consumer credit. Underlying insurance margin improvement was evident in both Consumer and Business, notwithstanding lower NSW CTP profitability under the new capped scheme. Short tail personal lines continue to generate strong returns, while commercial line profitability has improved, helped by lower large losses in property classes, but remains well short of targeted levels.

New Zealand (22% of GWP) has continued to perform strongly. Local currency GWP growth of 5.5% expanded to 6.6% on a favourable foreign exchange translation. Further rate-driven growth was achieved in both personal and commercial lines, with some offset from lower commercial volumes. Slightly higher underlying profitability (after allowance for quota share effects) translated to a higher reported margin after favourable net natural peril claim cost and reserve release movements.

NET PROFIT AFTER TAX / ROE

Reduction in net profit restricted to 9.3%, owing to gain on sale of Thailand operations

Net profit after tax of $500m was 9.3% lower than 1H18 ($551m), and contained:

- A 33% decrease in pre-tax insurance profit to $496m, with adverse peril, reserve release and credit spread movements masking the improvement in underlying performance;
- An adverse turnaround of over $130m pre-tax in investment income on shareholders' funds, largely reflecting weak Australian and global equity markets;
- A substantial increase in input from discontinued operations, owing to the inclusion of a profit of over $200m on the sale of the Thailand operations, which was completed at the end of August 2018; and
- A $36m reduction in amortisation and impairment expense, reflecting the absence of the impairment to certain Asian assets recognised in 1H18.

After excluding the profit on Thailand, cash earnings decreased by nearly 50%, to $319m, while diluted cash EPS was 13.4 cents, 48% lower than 1H18.

1. EXECUTIVE SUMMARY

Reported return on equity (ROE) in 1H19 was 15.4%, while cash ROE was 9.8%. This compares to IAG's through-the-cycle target of at least 1.5 times weighted average cost of capital (WACC), which equates to a cash ROE of approximately 15% on a longer term perspective.

DIVIDEND

Interim dividend of 12 cents – ~87% of cash earnings

The Board has determined to pay an interim fully franked dividend of 12.0 cents per ordinary share (1H18: 14.0cps). This equates to a cash payout ratio of nearly 87%. IAG's dividend policy remains one of distributing 60-80% of cash earnings, on a full year basis.

CAPITAL

Strong capital position, post-November 2018 capital management initiative

IAG's capital position remains strong. At 31 December 2018 IAG's Common Equity Tier 1 (CET1) ratio was 1.18, and 1.06 after allowance for payment of the interim dividend, against a target benchmark of 0.9-1.1. This is after the $592m capital management initiative of 25 cents per ordinary share which was completed on 26 November 2018.

IAG's debt to total tangible capitalisation ratio at 31 December 2018 was 38.4%, towards the upper 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). IAG is rated 'A' at the Group level.

IAG's probability of adequacy for the outstanding claims liability remained 90% at 31 December 2018.

FY19 OUTLOOK

FY19 GWP growth guidance of 2-4% maintained

FY19 GWP growth guidance is maintained at 2-4%. Ongoing growth is expected in 2H19, but at a slightly more subdued pace than that seen in 1H19. Contributory factors are expected to be:

- Further rate increases across short tail personal and commercial classes;
- Modest volume increases in personal line categories, notably motor;
- Further decline in commercial volumes, including those from ongoing remediation activity;
- Lower NSW CTP rates, following a planned rate reduction of 3.6% from March 2019; and
- Lower growth in workers' compensation GWP, after the unexpectedly large increase in 1H19 on wage and rate factors.

FY19 reported insurance margin guidance reaffirmed at 16-18%, despite increased regulatory and compliance costs

IAG has reaffirmed its FY19 reported insurance margin guidance range of 16-18%. This follows the improvement in underlying insurance margin in 1H19, and includes the absorption of an anticipated full year increase in regulatory and compliance costs of around $20m (pre-quota share) compared to FY18.

All other margin-related assumptions are unchanged, and comprise:

- A net improvement in pre-tax profit of approximately $100m from optimisation program initiatives, as implementation costs dissipate;
- Net losses from natural perils in line with allowance of $608m, taking into account $101m of protection from the financial year-based stop-loss reinsurance cover which is available immediately above $608m;
- Prior period reserve releases of around 2% of NEP; and
- No material movement in foreign exchange rates or investment markets in 2H19.

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, 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) 1.5 times weighted average cost of capital (WACC);
- A dividend payout of 60-80% of full year cash earnings;
- A 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 (AI) 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.

IAG's recent strategic investment has been focused on building a lean, efficient and modular insurance operation, through its **simplification** priority. It has also invested in creating a **customer**-focused organisation and building capabilities in data, digital, analytics and AI, brand and innovation, while making considerable progress towards creating an **agile** organisation. IAG will continue developing these programs of work in 2019.

Over the course of 2019, IAG will extend its strategic partnerships to offer products and services that are adjacent to its insurance business, enabling IAG to make its customers and the community feel safer on the road, in their homes and at work. IAG will leverage its assets – including its data, customer reach and brands – to launch and scale new digital businesses in markets that complement these adjacent products and services.

The goals of IAG's strategy are centred around building deeper engagement with its customers and growing the number of customers in the IAG network of brands. IAG seeks to create more value for its customers by making their world a safer place and to increase the lifetime value of its customer relationships.

3. SAFER COMMUNITIES

IAG has a clear purpose: to make your world a safer place. This is at the heart of IAG's strategy to achieve world-leading customer experiences and to operate with simplicity, scalability and agility. To help IAG execute its strategy and achieve its purpose, a **Safer Communities framework** has been developed that supports the creation of safer, stronger and more confident communities. This framework guides IAG's customer and community-facing initiatives, with execution delivered through four priorities that manage material business risks as well as realise potential opportunities:

1. Using purpose to create meaning for IAG's people and support organisational performance
Strengthening people and culture programs to drive alignment with IAG's purpose, increase agility and build readiness for the future of work.

2. Acting responsibly to build and maintain trust
Remaining committed to operating transparently and ethically. Ensuring actions build a foundation of trust by addressing social and environmental issues important to IAG's stakeholders.

3. Embedding IAG's purpose through shared value innovation
Building on this foundation by developing and adapting products, services and business models that deliver commercial, customer and community advantage.

4. Building safe, confident and connected communities
Looking beyond IAG's own business model by collaborating with partners to tackle systemic issues that affect community resilience and IAG's business. By addressing risk exposure, community preparedness, insurance access and insurance affordability, IAG aims to make communities safer and more resilient so they can thrive.

3. SAFER COMMUNITIES

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Increasingly, the social and environmental challenges faced by communities, countries and regions are affecting business and influencing commercial success. IAG supports international commitment to the United Nations' 17 Sustainable Development Goals (SDGs), to advance economic, social and environmental prosperity. IAG acknowledges the SDGs can only be achieved if business, government and society work together.

Commitment to UN Sustainable Development Goals

While IAG's work on safer communities and risk transfer through insurance can support many of the SDGs, IAG recognises and prioritises those where it can make the biggest difference:

- **Decent work and economic growth** (SDG 8) – recognising insurance is a service that helps communities to thrive and recover from adversity. The need for wide access to insurance is explicitly called out in Target 8.10.
- **Industry, innovation and infrastructure** (SDG 9) – supporting investment in resilient infrastructure, innovation and technology progress to find lasting solutions to economic and environmental challenges.
- **Sustainable cities and communities** (SDG 11) – using IAG's expertise and partnerships to deliver resilient and sustainable communities and infrastructure.
- **Climate action** (SDG 13) – given IAG's central role of helping customers transfer the risk stemming from weather-related natural perils.

A number of SDGs are being affected by the change occurring in communities, as a range of complex challenges impacts how safe people feel and their ability to deal with unexpected events. IAG's research highlights the importance of connection in a community to help prepare, respond and recover from major life events. These events are increasing as a result of social and environmental change, reinforcing the importance of achievement against the SDGs.

In Australia, IAG is assisting improvement against the SDGs through the **Good 'Hoods** movement, which aims to foster local connections and community pride. IAG is providing support to community leaders to develop community-led solutions, while sharing lessons and insights so successful initiatives can be replicated across the country. Using IAG's consumer-facing brands to do this improves customer advocacy and retention, and creates longer term commercial opportunities for IAG's business.

PURPOSE-LED INITIATIVES TO GENERATE COMMERCIAL RETURNS

In 1H19, IAG tested a range of commercially viable solutions that make communities safer and more inclusive for its customers.

Range of solutions being tested to make communities safer

Community resilience

In addition to the Good 'Hoods national movement, IAG is partnering with a number of local communities to develop local Good 'Hoods programs that help build resilience to specific local challenges. Three key focus areas have been identified in the program applicable to Blacktown in NSW, including enhanced community connection and local leadership. In 1H19 this program focused on increasing the quality and safety of community places and spaces while supporting initiatives already underway that connect community through local partnerships.

In 2H19, IAG will investigate a local resilience seed-funding program in Blacktown to support increased safety. Through this program IAG is building experience in improving community resilience at a grassroots level, complementing its work with partners at a state and national level, such as the Australian and New Zealand Red Cross and State Emergency Services.

3. SAFER COMMUNITIES

IAG is also supporting innovative social start-ups aligned to community connection. Risk and insurance support is being provided to **vennu** (a digital marketplace for community spaces), and a three-month pilot has launched in the Illawarra and Shoalhaven regions of NSW. vennu provides a streamlined and trusted connection to community spaces, to increase utilisation and return. The pilot includes over 60 unique community spaces, with post-evaluation next steps including a CGU Insurance vennu liability insurance cover and the exploration of adjacent opportunities.

IAG continues to support increased disaster preparedness. In 1H19 IAG worked to increase use of the Get Prepared app co-created with the **Australian Red Cross**. Over 9,000 people have downloaded the app and developed an emergency plan to support better preparedness for major disruptions. NRMA Insurance's storm preparedness campaign, with the **State Emergency Service** in both NSW and Queensland, has reached an estimated audience of over 6.8 million Australians, helping customers and the community undertake action to be better prepared for storms and reduce the likelihood of claim costs for IAG.

In 1H19, IAG and the **Australian Business Roundtable for Disaster Resilience and Safer Communities** continued to contribute to the work commenced by the **Federal Government National Resilience Taskforce** to develop a National Disaster Risk Reduction Framework. This included participating in the working group consolidating and considering cross-sector feedback to support updates to the framework.

Reconciliation Action Plan

In February 2019 IAG will launch its third Reconciliation Action Plan (RAP) with a vision of ensuring Aboriginal and Torres Strait Islander peoples, businesses and communities will be safer, stronger and more confident as IAG partners with Indigenous-led solutions and engages the passion of its people.

IAG's new RAP has attained the highest Elevate status from Reconciliation Australia, one of only 18 organisations achieving this from more than 1,100 RAPs developed across the country. IAG has supported the high school retention of over 700 Indigenous students through a partnership with AIME and assisted over 50 Indigenous CareerTracker University Students through internships. IAG has also increased Indigenous employment rates to 1% of its Australian workforce, with a commitment to achieving 3% in the next five years. Through the CGU brand, IAG is piloting a First People's Insurance and risk project to help the growth of Aboriginal and Torres Strait Islander small businesses.

TAKING ACTION ON CLIMATE CHANGE

IAG has long recognised the impact weather events have on the community and its own business, and that it needs to play a role in climate change adaptation as well as reducing the emissions that are driving it. In July 2018 IAG released its Climate Action Plan, and in October 2018 launched its **Climate Action Plan and Scorecard** outlining accountabilities for each Group Executive.

Climate Action Plan and Scorecard launched in October 2018

Reducing carbon emissions is increasingly urgent to avoid the impact of catastrophic climate change and potential longer term commercial impacts. IAG commenced disclosure consistent with the recommendations of the **Task Force on Climate-related Financial Disclosures** (TCFD) in FY18:

IAG is implementing TCFD recommendations

- **Governance**: Accountability and oversight for IAG's Climate Action Plan, including the approach to disclosure, sits with IAG's Board and Group Leadership Team.

3. SAFER COMMUNITIES

- **Strategy**: Climate change is a key consideration in IAG's strategy-setting process. While resilient to short term risks through the use of risk-based pricing, reinsurance and annual premium adjustment, IAG recognises longer term considerations such as the increasing frequency and severity of natural peril events. In 1H19, climate modelling was undertaken for three potential temperature levels, working with the National Centre for Atmospheric Research, with a focus on high risk natural perils, locations and insurance portfolios. The first internal pilot scenario workshop has been undertaken to inform a series of workshops that will also involve key external stakeholders. IAG continues to investigate product and service opportunities that support adaptation and emission reductions, in addition to existing fuel-efficient vehicle pricing benefits.
- **Risk management**: IAG considers climate-related risks through its Enterprise Risk Profile, supported by its Risk Management Framework and Risk Management Strategy. In 1H19, IAG identified climate change risk as one of the prioritised risks in its Enterprise Risk Profile, and this continues to be prioritised and managed as part of the IAG-wide risk management process. IAG has contributed to the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance TCFD pilot and will continue to participate with other global insurers in 2H19, supporting TCFD-aligned disclosures.
- **Metrics and targets**: IAG has been carbon neutral since 2012 and achieved its absolute carbon emissions reduction target of 10% ahead of its 2020 commitment. IAG has recently set science-based emission targets out to 2050. 1H19 saw a continued focus on energy efficiency and investigation of opportunities for increasing IAG's use of renewables.

An update on progress against IAG's Climate Action Plan Scorecard, as well as expanded TCFD disclosure, will be provided alongside the FY19 results.

In July 2018, the **New Zealand** business helped launch the **Climate Leaders Coalition**, which is made up of 73 businesses that represent half of New Zealand's emissions. IAG is both a founding member and one of 13 representatives on the Coalition's leadership group. The goal of the Coalition is to help New Zealand transition to a low emissions economy and to create a positive future for New Zealanders, business and the economy. The New Zealand business has signed the CEO Climate Change Statement committing to measure and report greenhouse gas emissions, while working with suppliers to reduce emissions.

GLOBAL WORK ON SUSTAINABLE FINANCE AND RISK MANAGEMENT

IAG partnered with National Australia Bank, Responsible Investment Association Australasia, Investor Group on Climate Change and the UN-supported Principles for Responsible Investment to deliver the UNEP FI conference on Financing a Resilient and Sustainable Economy, held in Sydney on 23-24 July 2018. The event built up to the release of a Joint Statement in support of a Sustainable Financial System for Australia and New Zealand signed by UNEP FI and representative groups of the banking, insurance and investment sectors collectively representing over 300 institutions with $10tr in assets.

Since the conference, the partnering organisations have launched a post-conference summary report and worked together to establish a governance structure and Steering Committee to oversee the Roadmap development process for Australia. A parallel process is also underway in New Zealand through the Aotearoa Circle and the New Zealand Government.

Collaboration across the finance sector to create Resilient and Sustainable Economies in Australia and New Zealand

4. CUSTOMER LABS

CUSTOMER LABS

Customer Labs is central to IAG's strategy and 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 brings together diverse expert capabilities to create world-leading customer experiences. Through deepening the engagement with customers, Customer Labs is able to gain valuable insights that fuel and inspire IAG's innovation efforts.

CUSTOMER EXPERIENCE

In 1H19, Customer Labs launched a trial **loyalty program**, The Safety Hub, offered to 2,800 customers across NSW and Queensland. Aligned to IAG's purpose of making your world a safer place, the initiative rewards customers for being proactive about safety in the home and in the local community. Customers received a series of simple, personalised tasks in a dedicated app, for example to check their flexi-hoses. Where repairs were required, IAG worked with its supply chain to carry them out. Other tasks related to fire prevention, storm season and home security. The fulfilment of repairs was done in collaboration with AirTasker, a marketplace for local services in which IAG's Firemark Ventures fund holds an investment.

Rewarding customers for being proactive about safety

The Safety Hub app also played a role in a targeted communication campaign alerting thousands of IAG customers to **faulty airbags** in their vehicles. The campaign focused on the most dangerous 'alpha' type airbags. The next alert will relate to the 'beta' airbags which are not considered an immediate risk, but which pose a higher threat in higher humidity and temperature regions. Customer Labs' location science and geospatial capability is identifying IAG customers who reside in the most highly affected areas, so they can be contacted as a priority.

Customer Labs' marketing team launched the 'Don't Drive Naughty, Drive Nice' **NRMA Insurance Christmas campaign**, urging drivers to take extra care during the festive season. The multi-channel campaign included a children's podcast channel, radio spots and a Facebook-augmented reality camera effect, generating a strong social media response.

Ongoing efforts to deepen customer understanding have included the launch of **Heartbeat 2.0**, a customer insight platform that captures customer satisfaction levels across IAG brands in a consistent way. This information in turn feeds into a newly-established real-time, interactive **Customer Experience Health Dashboard**. The dashboard brings together a multitude of customer metrics and sophisticated analytics, allowing IAG staff to make business decisions based on deeper customer understanding.

4. CUSTOMER LABS

DATA

Drawing on data to grow customer understanding

Data provides IAG with a lens into customers' worlds, the assets they insure and the ways in which they interact with IAG's brands. Housing all customer data on a **single data platform** enables IAG to paint an increasingly detailed picture of how to best serve its customers and how to create customer experiences that are more engaging and personalised.

As the uptake of digital channels increases, so does the volume of data that IAG acquires in the course of doing business. To improve the scalability, flexibility and cost of managing this growing data asset, during 1H19 Customer Labs placed the first tranche of material data workloads onto the **public cloud**. This considerable milestone was underpinned by extensive testing and reinforcement of Customer Labs' frameworks to ensure best practice relating to data security, governance and risk management. Further staged workload releases will continue throughout FY19 and beyond.

ANALYTICS & ARTIFICIAL INTELLIGENCE (AI)

Under the leadership of a newly appointed **Chief Analytics Officer**, Customer Labs' analytics and AI function has continued to advance a range of initiatives. Examples include:

- The investigation of faster claims settlement by analysing information provided by customers to automatically identify total loss claims;
- Applying unsupervised learning techniques to identify fraudulent motor vehicle theft claims; and
- Modelling the likelihood that a customer will discontinue their policy in the lead-up to policy renewal, based on online behaviour data.

Recognising the rapid pace of change and the impact on IAG's people, Customer Labs has developed **workforce analytics** that provide insights relating to the specific skillsets that exist within the organisation. This new understanding allows talent support and development to be more tailored.

Promoting ethical use of AI

Customer Labs has been increasingly using AI in its decision-making, while at the same time considering the ethical aspects of AI use. To support this thinking, in December 2018 IAG became a founding partner of the **Gradient Institute**, together with CSIRO's Data61 and The University of Sydney. The Institute is an independent not-for-profit organisation founded to research the ethics of AI and to develop ethical AI-based systems that will provide better outcomes for individuals and for society overall.

DIGITAL

Customer Labs has continued to drive digitisation across IAG. The core elements underpinning this **digital transformation** include:

- Increased personalisation for customers;
- Further development of Application Programming Interfaces that enable IAG to connect customers to more products and services;
- Scaling of the digital infrastructure; and
- Growing the use of the public cloud to achieve increased scalability and cost efficiency.

Customer Labs is using **agile principles** to deliver IAG's digital transformation, with a focus on addressing specific customer needs, planning in a way that adapts rapidly to change and delivering through collaboration. This approach allows IAG to move faster and to deliver more for its customers.

4. CUSTOMER LABS

Progressing IAG's digital transformation

As part of IAG's digital innovation strategy, Customer Labs has continued to redesign the way customers interact with IAG brands through **digital channels**. During 1H19, the experiences of customers lodging motor and property claims in Australia and New Zealand were enhanced. This work was an extension of a minimum viable product developed in 2H18 to track motor repair status and provide regular updates to customers. Positive feedback led to this capability being scaled from 13 to nearly 600 repairers during 1H19 across IAG's brands.

The ability for customers to **lodge claims online** has been expanded to the Coles brand in Australia and State in New Zealand, with a new online capability to view and manage claims launched for Coles motor and home customers.

The **NRMA Insurance mobile app**, which enables customer self-service, was updated with improved payment functionality during 1H19.

INNOVATION & VENTURING

Continuing product development, testing and prototyping

At IAG, innovation entails learning, experimentation and partnering to rapidly develop, test and prototype new products and services. During 1H19, a number of products were in development and testing phase. Customer Labs' partnering with **emerging businesses** saw product experiments with AirTasker and work with UpGuard, a cyber security company focused on innovative insurance solutions to address the rising cyber security risk. Single item insurance, Insurance4That, was scaled through the IAG **partner network**.

Recent work by the Customer Labs innovation team resulted in the December 2018 launch of **Pounce Pet Insurance**, which is distributed and promoted by IAG and underwritten by a third party.

IAG's **Firemark Ventures** investment fund, capitalised to an amount of $75m, targets emerging, innovative businesses that have the potential to transform the world of insurance or which can meaningfully enrich customer experiences. During 1H19, the fund made two new investments, three follow-on investments and assessed over 100 investment opportunities. The total amount invested as at 31 December 2018 was close to $16m.

IAG continues to view relationships with **research institutions** as critical to its innovation efforts. Customer Labs is connected to three major Co-operative Research Centre (CRC) programs, which are a collaboration between industry, government and academia. One example is the iMOVE CRC, which will shape the future of intelligent and connected transport in Australia. CRC involvement enables Customer Labs to stay abreast of societal trends and community expectations.

5. GROUP RESULTS

FINANCIAL PERFORMANCE

GROUP RESULTS	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**5,649**	**5,998**	**5,881**
Gross earned premium	5,780	5,742	5,984
Reinsurance expense	(1,613)	(2,238)	(2,373)
Net earned premium	**4,167**	**3,504**	**3,611**
Net claims expense	(2,505)	(2,112)	(2,358)
Commission expense	(387)	(320)	(324)
Underwriting expense	(653)	(517)	(535)
Underwriting profit	**622**	**555**	**394**
Investment income on technical reserves	123	107	102
Insurance profit	**745**	**662**	**496**
Net corporate expense	-	(9)	5
Interest	(39)	(43)	(48)
Profit/(loss) from fee based business	-	(12)	5
Share of profit from associates	19	15	19
Investment income on shareholders' funds	129	36	(7)
Profit before income tax and amortisation	**854**	**649**	**470**
Income tax expense	(211)	(173)	(123)
Profit after income tax (before amortisation)	**643**	**476**	**347**
Non-controlling interests	(19)	(60)	(25)
Profit after income tax and non-controlling interests (before amortisation)	**624**	**416**	**322**
Amortisation and impairment	(65)	(28)	(29)
Profit attributable to IAG shareholders from continuing operations	**559**	**388**	**293**
Net profit/(loss) after tax from discontinued operations	(8)	(16)	207
Profit attributable to IAG shareholders	**551**	**372**	**500**

Insurance Ratios - Continuing Business	1H18	2H18	1H19
Loss ratio	60.1%	60.3%	65.3%
Immunised loss ratio	60.9%	60.1%	64.6%
Expense ratio	25.0%	23.9%	23.8%
Commission ratio	9.3%	9.1%	9.0%
Administration ratio	15.7%	14.8%	14.8%
Combined ratio	85.1%	84.2%	89.1%
Immunised combined ratio	85.9%	84.0%	88.4%
Reported insurance margin	**17.9%**	**18.9%**	**13.7%**
Underlying insurance margin	**13.0%**	**15.4%**	**16.2%**

Key Financial Metrics (Total Operations)	1H18	2H18	1H19
Reported ROE (average equity) (% pa)	16.8%	11.2%	15.4%
Cash ROE (average equity) (% pa)	19.1%	12.2%	9.8%
Basic EPS (cents)	23.32	15.75	21.31
Diluted EPS (cents)	22.60	15.58	20.48
Cash EPS (cents)	26.66	17.11	13.60
Diluted cash EPS (cents)	**25.73**	**16.86**	**13.40**
DPS (cents)	**14.00**	**20.00**	**12.00**
Probability of adequacy	90%	90%	90%
CET1 multiple	**1.19**	**1.26**	**1.18**
PCA multiple	1.81	2.03	2.00

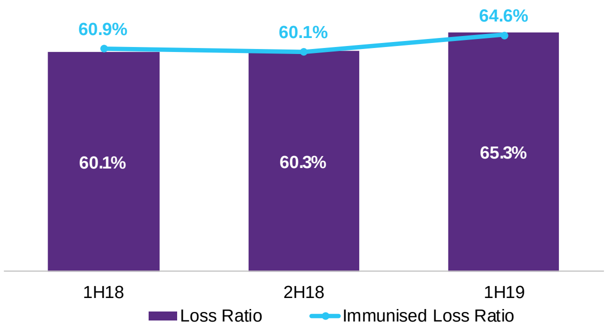
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A$	Balance Sheet (spot rate)			Income Statement (average rate)	
	1H18	2H18	1H19	1H18	1H19
New Zealand dollar	1.1013	1.0929	1.0495	1.0917	1.0816
Malaysian ringgit	3.1597	2.9868	2.9115	3.2786	2.9913
Indian rupee	49.8504	50.6073	49.0196	50.2513	51.4139

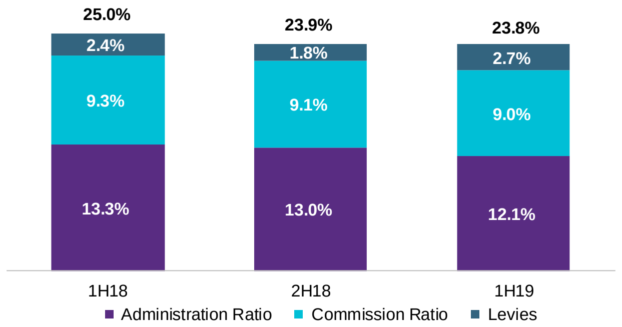
5. GROUP RESULTS

INSURANCE RATIOS

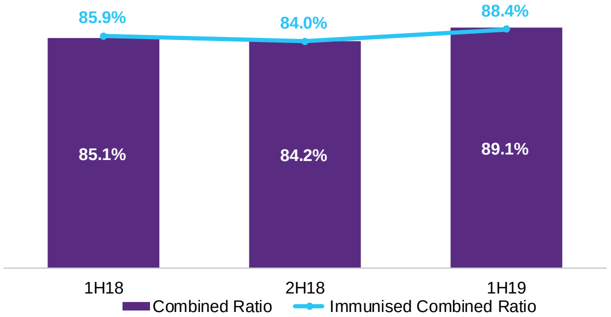
LOSS RATIO



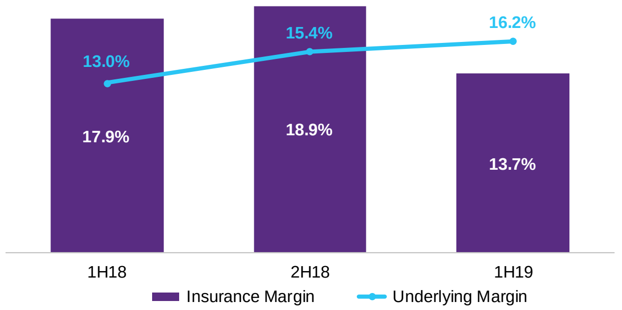
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



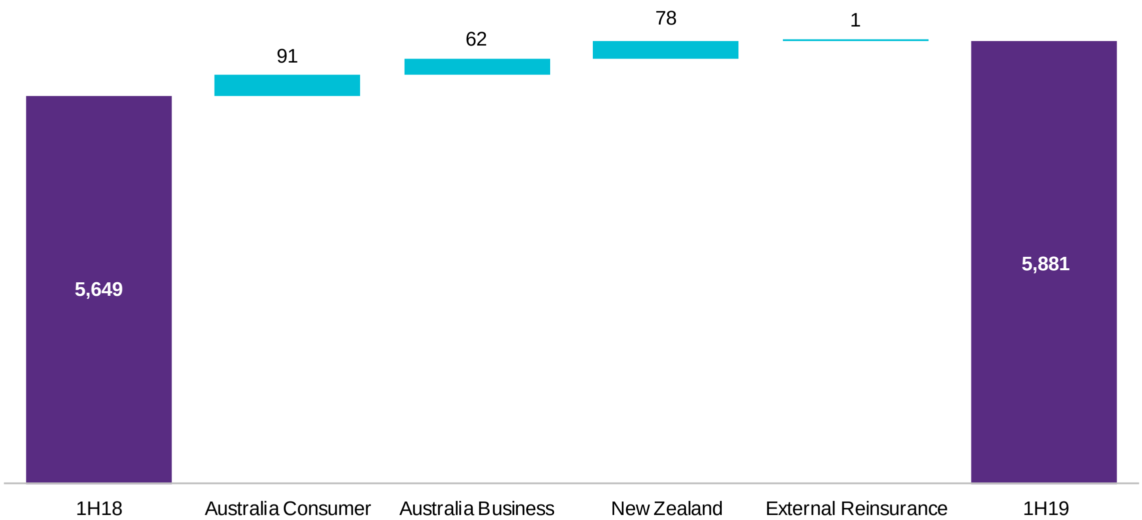
PREMIUMS

Reported GWP in 1H19 amounted to $5,881m, an increase of 4.1%. Largely rate-driven, this encompassed:

- Growth of 3.4% in Australia (to $4,606m), comprising 3.0% in Consumer and 4.4% in Business; and
- Growth of 6.6% in New Zealand (to $1,268m), aided by a favourable foreign exchange translation effect of over 100bps.

GWP growth of 4.1% in 1H19, largely driven by rate increases

GWP – 1H19 VS. 1H18 (A$M)



5. GROUP RESULTS

While GWP growth was largely linked to rate increases, volume gain was achieved in short tail motor, NSW CTP and workers' compensation. Commercial volumes as a whole shrank, reflecting ongoing remediation activities. Overall volumes were relatively flat.

As previously foreshadowed, 1H19 GWP incorporated some drag from scheme reform effects in NSW CTP, as well as the absence of ceased or exited business activities, including retail warranty and consumer credit. Offsetting factors were stronger than expected growth in NSW CTP volumes and higher than anticipated workers' compensation GWP, including the influence of higher wage levels buoyed by improved economic conditions in Western Australia.

INSURANCE MARGIN

IAG's underlying insurance margin was 16.2%, compared to 15.4% in 2H18 and 13.0% in 1H18. The new quota share agreements, entered into from 1 January 2018 for 12.5% of the consolidated business, served to raise the margin by approximately 250bps in 1H19, compared to 1H18.

Improved underlying insurance margin of 16.2%

Other features of the net improvement in underlying insurance margin were:

- Rate-driven growth in earned premium in short tail personal and commercial classes in both Australia and New Zealand;
- Related alleviation of claim cost pressures, as rate increases at least matched increases in average claim costs;
- Further respite from lower large loss experience in Australian commercial property;
- Emerging net benefits from the group-wide optimisation program;
- Lower NSW CTP profitability, reflecting the capped profitability of the new scheme from 1 December 2017; and
- The absorption of approximately $15m of additional regulatory and compliance costs (pre-quota share), including those associated with the Royal Commission.

IAG's underlying insurance 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.

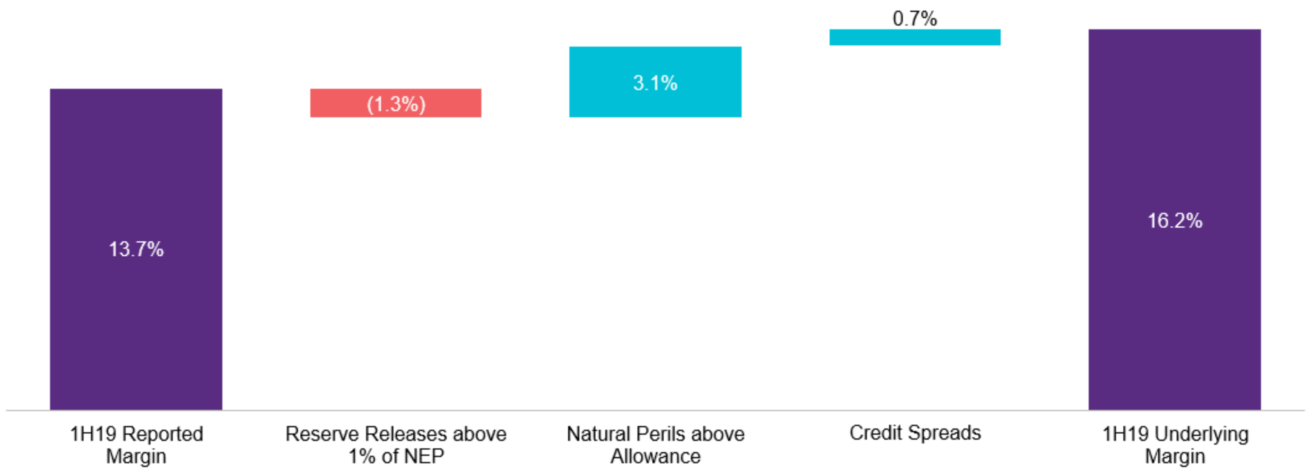
The lower reported margin of 13.7% (1H18: 17.9%) included the aforementioned quota share uplift of ~250bps (vs. 1H18), which was overshadowed by the following adverse influences that contributed to a greater than 30% decrease in insurance profit:

Significantly lower reported insurance margin of 13.7%, propelled by adverse perils outcome

- An unfavourable net natural peril experience which saw related claim costs exceed allowance by $110m. This was in contrast to a shortfall against allowance of $77m in 1H18;
- Lower net prior period reserve releases of $83m (1H18: $122m), which represented 2.3% of NEP (1H18: 2.9%); and
- A greater than $70m adverse swing in credit spread impact, from a favourable effect of $47m in 1H18 to a negative contribution of $24m in 1H19.

5. GROUP RESULTS

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



INSURANCE MARGIN IMPACTS - Continuing Business	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	122	183	83
Natural perils	(262)	(279)	(414)
Natural peril allowance	339	286	304
Credit spreads	47	(33)	(24)
Reserve releases	2.9%	5.2%	2.3%
Natural perils	(6.3%)	(8.0%)	(11.5%)
Natural peril allowance	8.1%	8.2%	8.4%
Credit spreads	1.1%	(0.9%)	(0.7%)

REINSURANCE EXPENSE

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

The 1H19 reinsurance expense of $2,373m compares to $1,613m in 1H18, with the 47% increase essentially a function of the additional quota share arrangements entered into from 1 January 2018, covering 12.5% of the consolidated business.

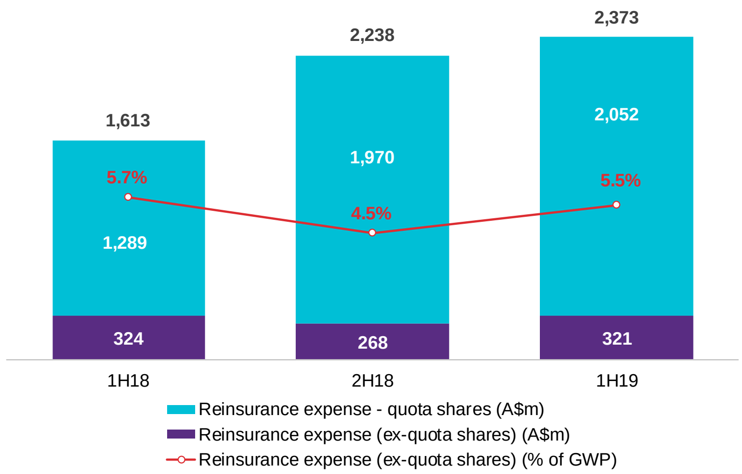
A small decrease in underlying reinsurance expense occurred from the combination of:

- Reduced placement of cover to reflect increased quota share;
- Modest overall aggregate growth;
- Increased gross cover, including the FY19 stop-loss protection which attaches directly from the FY19 natural perils allowance;
- Higher renewal costs attached to commercial line per risk excess of loss cover in Australia; and
- Broadly similar catastrophe cover rates.

Small decrease in underlying reinsurance expense

5. GROUP RESULTS

REINSURANCE EXPENSE



CLAIMS

A higher immunised loss ratio of 64.6% (1H18: 60.9%) contained:

- Significantly higher net natural peril claim costs, over $150m above those incurred in 1H18;
- A reduced net prior period reserve release contribution of $83m; and
- An improved underlying claims performance, including benefits from increased utilisation of IAG's preferred repairer network, emerging optimisation-related benefits and lower large losses in Australian commercial property.

Higher loss ratio driven by adverse net natural perils experience

The 1H19 reported loss ratio was 65.3% (1H18: 60.1%). In addition to reserve release and peril movements, this included an unfavourable risk free discount rate adjustment of $26m (after inclusion of foreign exchange effects), compared to a favourable effect of $31m in 1H18.

Reserve Releases

Reserve releases in excess of 2% of NEP

The 1H19 net claims expense includes $83m of prior period reserve releases, equivalent to 2.3% of NEP (1H18: 2.9%). This outcome is lower than 1H18, from an amalgam of:

- Lower net releases from long tail CTP in Australia, reflecting the combination of a persistence of benign inflationary conditions and increased quota share entitlements in more recent years;
- A reduced contribution from Australian commercial classes, where long tail releases were negated by strengthening for past weather events; and
- The absence of significant reserve strengthening in New Zealand, which in 1H18 amounted to $53m and was derived primarily from a mixture of professional indemnity and prior year storm cost development factors.

RESERVE RELEASES Continuing Business	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	122	183	83
Impact on insurance margin	**2.9%**	**5.2%**	**2.3%**

As embodied in its underlying insurance margin definition, IAG believes 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.

5. GROUP RESULTS

It remains IAG's expectation that the relative absence of inflation will persist for the balance of FY19, with full year guidance of reserve releases of around 2% of NEP maintained.

Natural Perils

Net natural peril claim costs in 1H19 were $414m, which was $110m higher than the allowance for the period. This contrasts with a net shortfall against allowance of $77m in 1H18. The net effect of natural perils (after allowance) was an unfavourable margin movement of nearly 500bps compared to 1H18.

Net natural peril claim costs $110m above allowance

NATURAL PERILS Continuing Business	1H18 A$m	2H18 A$m	1H19 A$m
Net natural peril claim costs	(262)	(279)	(414)
Natural peril allowance	339	286	304
Impact on insurance margin	**77**	**7**	**(110)**
Impact on insurance margin	**1.8%**	**0.2%**	**(3.1%)**

The most significant event in 1H19 was the Sydney hailstorm in December 2018, which accounted for 39% of net natural peril claim costs. The cost of this event was $162m after reinsurance protection, including $7m of recoveries under the calendar 2018 aggregate cover.

1H19 NATURAL PERIL COSTS BY EVENT	A$m
Tansey tornado / South Burnett hailstorm (October 2018)	28
Southern low (December 2018)	62
NSW (Sydney) and Queensland hailstorms (December 2018)*	162
Other events (<$15m)	162
Total	**414**

** Net of reinsurance recoveries*

Attritional peril events (below $15m in size) in 1H19 amounted to $162m, compared to $170m in 1H18.

In 1H18 the calendar 2017 aggregate cover provided approximately $120m of reinsurance protection and limited IAG's exposure to $20m on several individual events, most notably the Melbourne hailstorm in December 2017. In 1H19, aggregate protection called upon was confined to the $7m in respect of the Sydney hailstorm.

EXPENSES

Improved expense ratio, as optimisation benefits begin to emerge

Total net operating expenses (commission and underwriting) were $859m, compared to $1,040m in 1H18.

On a pre-quota share and levies basis, underwriting expense levels were similar to 1H18 and lower than 2H18. This is after inclusion of:

- Emerging benefits from IAG's optimisation program; and
- Approximately $15m of increased regulatory and compliance costs, including those relating to the Royal Commission (1H18: zero; 2H18: ~$10m).

An increase in regulatory and compliance costs of the order of $20m is anticipated in FY19, compared to FY18.

The reported expense ratio improved to 23.8% (1H18: 25.0%), while on an ex-levies basis the administration ratio was 12.1% (1H18: 13.3%). A reduced commission ratio of 9.0% (1H18: 9.3%) was influenced by a relatively lower proportion of intermediated business, particularly in commercial lines, and was slightly lower than that recorded in 2H18.

5. GROUP RESULTS

EXPENSES	1H18 A$m	2H18 A$m	1H19 A$m
Gross underwriting expense ex levies	772	800	781
Levies	121	94	164
Total gross underwriting expenses	**893**	**894**	**945**
Gross commission expense	491	479	487
Total gross expenses	**1,384**	**1,373**	**1,432**
Reinsurance commission revenue	(344)	(536)	(573)
Total net expenses	**1,040**	**837**	**859**

Within gross underwriting expenses there are two main levy components:

- The Emergency Services Levy (ESL) in NSW, which is added to insurance premiums and passed through to the NSW government to help fund state-based emergency services. No material impact on IAG's profitability results, however individual income and expense lines can be prone to period-on-period variances associated with ESL changes; and
- The Excess Profit or Loss Adjustment (TEPLA) related to the capped profitability of the new NSW CTP scheme. IAG aims to recognise profits under this scheme in line with the capped level by means of TEPLA, with an accounting requirement that it is treated as a levy. 1H19 is the first period in which a significant TEPLA has arisen, of in excess of $40m. 62.5% of IAG's CTP portfolio is subject to quota share, with an equivalent portion of TEPLA included in reinsurance commission revenue.

OPTIMISATION PROGRAM

Optimisation tracking to plan – reduction in gross costs of ~$40m in 1H19

IAG's optimisation program brings together initiatives designed to simplify its business. This program is targeted to reduce IAG's controllable expense base by $250m (or 10%) by FY20, while also enabling significant improvements in productivity and customer experience.

IAG's optimisation program is progressing in line with plan. 1H19 included a net reduction in gross operating costs (excluding commission and levies) of around $40m, compared to the position at the end of FY16 which formed the basis of the program's targets. This is spread across the underwriting expense, claims expense and fee based business lines.

It remains IAG's expectation that a pre-tax benefit from the program of approximately $100m will emerge in FY19, compared to FY18, while exiting FY19 at a run rate equivalent to the targeted $250m.

Specific initiatives progressed in 1H19 were:

- Continued delivery of the operational partnering program, including:
  - Completion of the third tranche of transition to offshore partners, covering elements of claims, sales and service, finance, risk and distribution, across Australia and New Zealand;
  - Continued rollout of an operational partnering excellence framework to build organisational capability; and
  - Installation of the first robotic process automation pilot, automating administrative elements of the renewal process for some policies;
- Embedding leadership capability and systems of work that support and drive the right culture at IAG, including:
  - Further refinement of the operating model in Australia;
  - A new trans-Tasman operating model for Group Technology; and
  - Refinement of Customer Labs and Group Services operating models;

5. GROUP RESULTS

- Significant progress with consolidation and simplification of IAG's core technology systems, including:
  - All motor claims under the State and AMI brands in New Zealand being lodged on the strategic claims platform, as well as home claims for State;
  - Personal injury claims for liability, NSW CTP and workers' compensation moving to full management on the strategic claims platform;
  - The long tail claims business orientating to a new operating model, improving claimant return-to-work rates through greater matching of capability to claim complexity;
  - A 30% reduction in claim volumes on migrated legacy systems, commencing the pathway to their decommissioning;
  - Commencement of benefit realisation through reduced claims leakage and lower operating costs; and
  - Commencement of initial planning and design activities for the consolidation and simplification of IAG's policy systems.

During the balance of FY19, planned initiatives include:

- Embedding the operational partnering excellence framework in all teams with partnered work;
- Continuing to embed the Leading@IAG program to improve management capability, while introducing new leadership and talent management initiatives;
- Final consolidation of all IAG's claims platforms onto a single version of Guidewire's ClaimCenter by the end of FY19, with the exception of CTP in the Australian Capital Territory (ACT), which remains subject to scheme reform requirements; and
- Continued upfront design in preparation for the commencement of IAG's policy transformation and platform simplification, from 17 policy legacy systems to a single strategic platform, from FY20.

INVESTMENT INCOME ON TECHNICAL RESERVES

Similar average yield on technical reserves to 1H18

Investment income on technical reserves for 1H19 was $102m, compared to $123m in 1H18. This outcome includes:

- The impact of reduced investment assets, primarily as a consequence of the additional quota shares which commenced on 1 January 2018;
- A downwards movement in the yield curve since 30 June 2018;
- A negative effect of $24m from the widening of credit spreads, compared to a gain of $47m in 1H18 from the narrowing of spreads; and
- A favourable foreign exchange impact of $3m, 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 1H18 was an adverse effect of $15m.

After allowance for the factors outlined above, the average yield achieved in 1H19 was similar to that of 1H18. The portfolio is aligned with the average weighted duration of IAG's claims liability, of around two years.

NET CORPORATE EXPENSE

Net corporate expense in 1H19 amounted to a profit of $5m. The main contributory factor was the profit on sale of Australia's interest in authorised representative brokers, Community Broker Network. This was sold with effect from early October 2018.

5. GROUP RESULTS

SHARE OF ASSOCIATES

Share of associates largely from Malaysia and India

The combined contribution from associates was a profit of $19m (1H18: $19m), largely derived from IAG's interests in Malaysia and India. IAG continues to assess future options for these Asian assets, which have a combined carrying value of nearly $600m at 31 December 2018.

SHARE OF PROFITS FROM ASSOCIATES	1H18 A$m	2H18 A$m	1H19 A$m
Malaysia	13	27	17
India	11	(1)	13
Asia support costs	(7)	(11)	(12)
Other	2	-	1
Total share of profits from associates	**19**	**15**	**19**

Malaysia

Improved Malaysian margin helped by higher reserve releases

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 one of the largest motor insurers in Malaysia following the acquisition of Kurnia Insurans (Malaysia) Berhad in September 2012. Since March 2013, the business has operated as AmGeneral Insurance Berhad using two market-leading brands, AmAssurance and Kurnia.

AMGENERAL Financial Performance	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**216**	**250**	**252**
Gross earned premium	231	245	252
Reinsurance expense	(18)	(22)	(21)
Net earned premium	**213**	**223**	**231**
Net claims expense	(134)	(105)	(135)
Commission expense	(24)	(22)	(27)
Underwriting expense	(50)	(52)	(55)
Underwriting profit	**5**	**44**	**14**
Investment income on technical reserves	17	17	20
Insurance profit	**22**	**61**	**34**
Net profit after tax	**26**	**56**	**34**
Net profit after tax - IAG's share (49%)	**13**	**27**	**17**

Insurance Ratios	1H18	2H18	1H19
Loss ratio	63.2%	47.1%	58.4%
Expense ratio	34.5%	33.2%	35.5%
Commission ratio	11.1%	9.9%	11.7%
Administration ratio	23.4%	23.3%	23.8%
Combined ratio	97.7%	80.3%	93.9%
Insurance margin	10.4%	27.4%	14.7%

AmGeneral's GWP grew by 16.7% in 1H19, and 6.4% in local currency terms. This growth was driven by higher motor volumes in AmGeneral's core agency channel.

AmGeneral's 1H19 insurance margin of 14.7% was higher than 1H18 (10.4%), reflecting the combination of:

- The benefit of continued pricing actions and portfolio management;
- Higher bodily injury-related prior period reserve releases; and
- Higher investment returns.

IAG received approximately $80m of dividends from AmGeneral in 1H19.

India

India continues to generate strong GWP growth

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.

As part of the original agreement with SBI, IAG held an option to increase its ownership of SBI General to 49%. In 1H19, IAG confirmed to SBI that it would not exercise this option.

During 1H19, SBI reduced its interest in SBI General from 74% to 70%, following the sale of a 4% stake to two local institutional investors, and indicated a planned initial public offering (IPO) of SBI General.

SBI General has continued to grow strongly, generating 1H19 GWP equivalent to $453m, an increase of nearly 23% over 1H18. Local currency GWP growth was over 25%. SBI General is the thirteenth largest general insurer in India, with an overall market share of 2.7% as at 31 December 2018.

SBI GENERAL Financial Performance	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**369**	**404**	**453**
Gross earned premium	443	355	447
Reinsurance expense	(253)	(143)	(211)
Net earned premium	**190**	**212**	**236**
Net claims expense	(137)	(162)	(176)
Commission and underwriting expenses	(32)	(60)	(44)
Underwriting profit/(loss)	**21**	**(10)**	**16**
Investment income on technical reserves	12	11	33
Insurance profit	**33**	**1**	**49**
Net profit/(loss) after tax	**41**	**(3)**	**52**
Net profit/(loss) after tax - IAG's share (26%)	**11**	**(1)**	**13**

Insurance Ratios	1H18	2H18	1H19
Loss ratio	72.3%	76.4%	74.6%
Expense ratio	16.9%	28.3%	18.6%
Combined ratio	89.2%	104.7%	93.2%
Insurance margin	17.4%	0.5%	20.8%

The increase in SBI General's 1H19 GWP was driven by continued growth in the bancassurance channel and higher crop insurance volumes.

SBI General reported an insurance profit of $49m in 1H19 (1H18: $33m). This improved outcome reflected the combination of:

- Higher seasonal losses, primarily from the Kerala floods;
- A favourable effect from exchange commission recognition in the long term home portfolio; and
- Higher investment income.

SBI General's net profit after tax was $52m (1H18: $41m), of which IAG's share is approximately $13m.

5. GROUP RESULTS

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Loss on shareholders' funds reflects weak equity markets

Investment income on shareholders' funds was a loss of $7m, compared to a profit of $129m in 1H18. This decline embraced:

- Negative returns from equity markets, notably in the second quarter;
- Some mitigation from a portfolio bias towards defensive stocks within international equities; and
- A positive return from alternative investments.

The S&P ASX200 Accumulation Index in Australia delivered a negative return of 6.8% in 1H19 (1H18: +8.4%), while the MSCI World Total Return Index (AUD Hedged) produced a negative return of 8.7% (1H18: +10.0%).

At 31 December 2018, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was 52%, compared to 57% at FY18.

TAX EXPENSE

Effective tax rate of 26.2%

IAG reported a tax expense of $123m in 1H19 (1H18: $211m), representing an effective tax rate (pre-amortisation and impairment) of 26.2% (1H18: 24.7%).

Contributory elements reconciling the 1H19 effective tax rate to the Australian corporate rate of 30% are:

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

NON-CONTROLLING INTERESTS

Non-controlling interests reflects IMA result

The $25m non-controlling interests in IAG's profit compares to $19m in 1H18. 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.

IMA posted an improved result over 1H18, with increased net earned premium partially offset by higher net natural peril claim costs and weak investment income on shareholders' funds.

DISCONTINUED OPERATIONS

Profit from discontinued Asian operations includes over $200m gain on sale of Thailand

On 19 June 2018 IAG announced it had entered sale agreements covering its consolidated operations in Thailand, Indonesia and Vietnam. In accordance with accounting standard requirements, the post-tax contribution from these operations is identified as a single line item in the statement of comprehensive income and designated 'discontinued operations'.

The combined profit from discontinued operations was $207m, compared to a loss of $8m in 1H18. The profit in 1H19 includes a gain of over $200m on the sale of the Thailand operations, which was completed at the end of August 2018.

It remains IAG's expectation that the agreed sales of the Indonesia and Vietnam operations will complete before the conclusion of FY19.

EARNINGS PER SHARE

48% decrease in diluted cash EPS to 13.4 cents

Diluted cash earnings per share (cash EPS) in 1H19 was 13.4 cents per share (cps), a decrease of 48% compared to 1H18, and excluded the profit on sale of the Thailand operations. Reported earnings per share (EPS) in 1H19 was 21.31cps, which was nearly 9% lower than 1H18, and on a diluted basis was 20.48cps (1H18: 22.60cps).

5. GROUP RESULTS

1H19 basic EPS was calculated on lower weighted average equity on issue (excluding treasury shares) of 2,346.2m shares (1H18: ~2,363m), reflecting the initial effect of the share consolidation completed on 5 November 2018. Diluted EPS was based on 2,557.5m shares after allowance for potential equity issuance from hybrid debt conversion (1H18: ~2,518m).

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,367.5
Share consolidation - November 2018	(56.5)
Balance at the end of the half year	**2,311.0**
Average weighted shares on issue	2,350.0
Less: Treasury shares held in trust	(3.8)
Average weighted shares on issue - basic EPS	**2,346.2**
Add: Treasury shares held in trust	3.8
Add: Potential dilutionary issues from hybrid debt instruments	207.5
Average weighted potential shares on issue - diluted EPS	**2,557.5**

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.

CASH EARNINGS	1H19 A$m
Net profit after tax	**500**
Acquired intangible amortisation and impairment	29
Unusual items:	
- Corporate expenses	(5)
- Tax effect on corporate expenses	(1)
- Gain on sale of Thailand	(208)
- Loss of diversification benefit on sale of Thailand	4
Cash earnings	**319**
Dividend payable	**277**
Cash payout ratio	**86.8%**

DIVIDEND

Interim dividend of 12 cents – 86.8% of cash earnings

The Board has determined to pay an interim fully franked dividend of 12.0 cents per share (1H18: 14.0cps). The interim dividend is payable on 20 March 2019 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 13 February 2019.

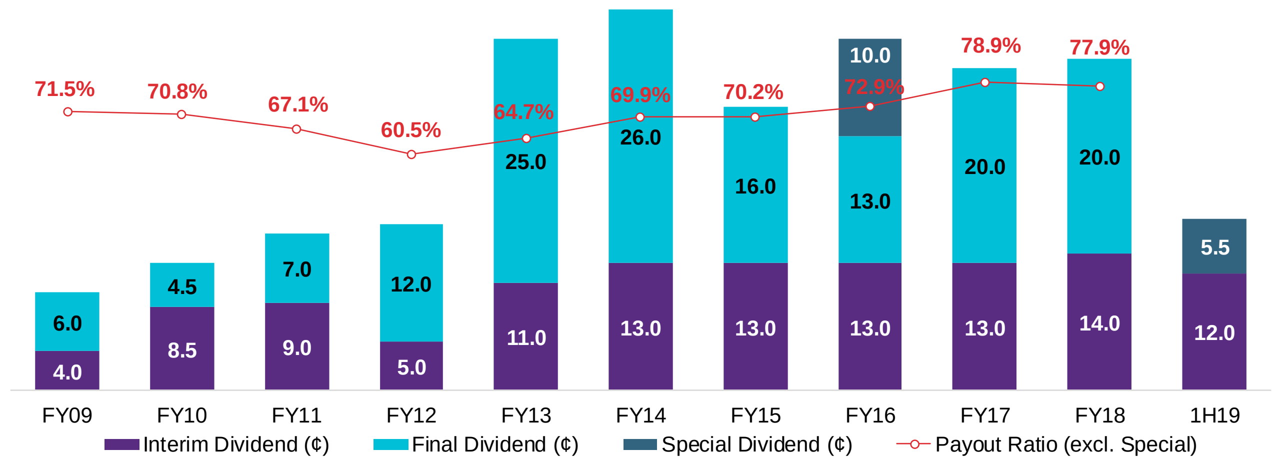
The interim dividend equates to a payout ratio of 86.8% of cash earnings. IAG's dividend policy is to pay out 60-80% of cash earnings in any full financial year.

During 1H19 IAG paid a special dividend of 5.5cps as part of the capital management initiative announced in August 2018 and approved by shareholders at the AGM on 26 October 2018. Payment occurred on 26 November 2018.

As at 31 December 2018, and after allowance for payment of the interim dividend, IAG's franking balance was $42m, giving it the capacity to fully frank a further $99m of distributions. IAG's franking balance includes its 70% entitlement to franking held by IMA.

5. GROUP RESULTS

DIVIDEND HISTORY – FY09-1H19



The dividend reinvestment plan (DRP) will operate for the interim dividend for shareholders registered for the DRP as at 5pm AEDT on 14 February 2019. The issue price per share will be the Average Market Price as defined in the DRP terms, with no discount for participants. Shares allocated under the DRP are purchased on-market. Information about IAG's DRP is available at http://www.iag.com.au/shareholder-centre/dividends/reinvestment.

IAG's franking credit balance has reduced in recent years, owing to past capital management measures and the move to a higher dividend payout policy. As originally indicated in August 2018, it is IAG's expectation that it may not be in a position to fully frank distributions on its securities from the second half of calendar 2019 onwards, with franking from that date expected to be in the range of 70% to 100%.

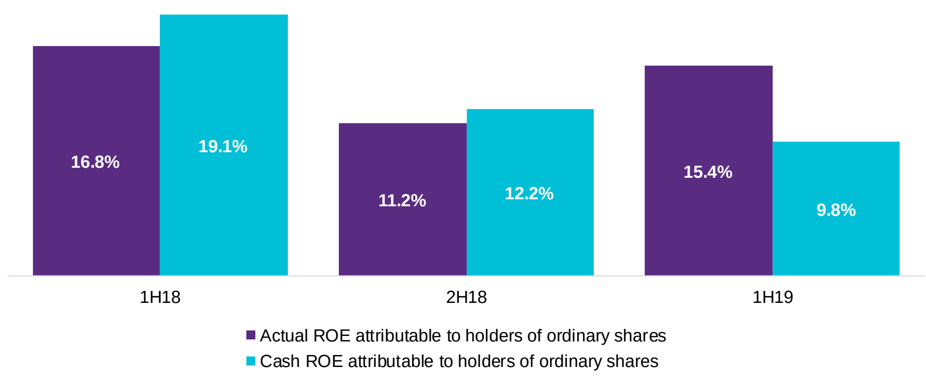
RETURN ON EQUITY

Cash ROE of 9.8%

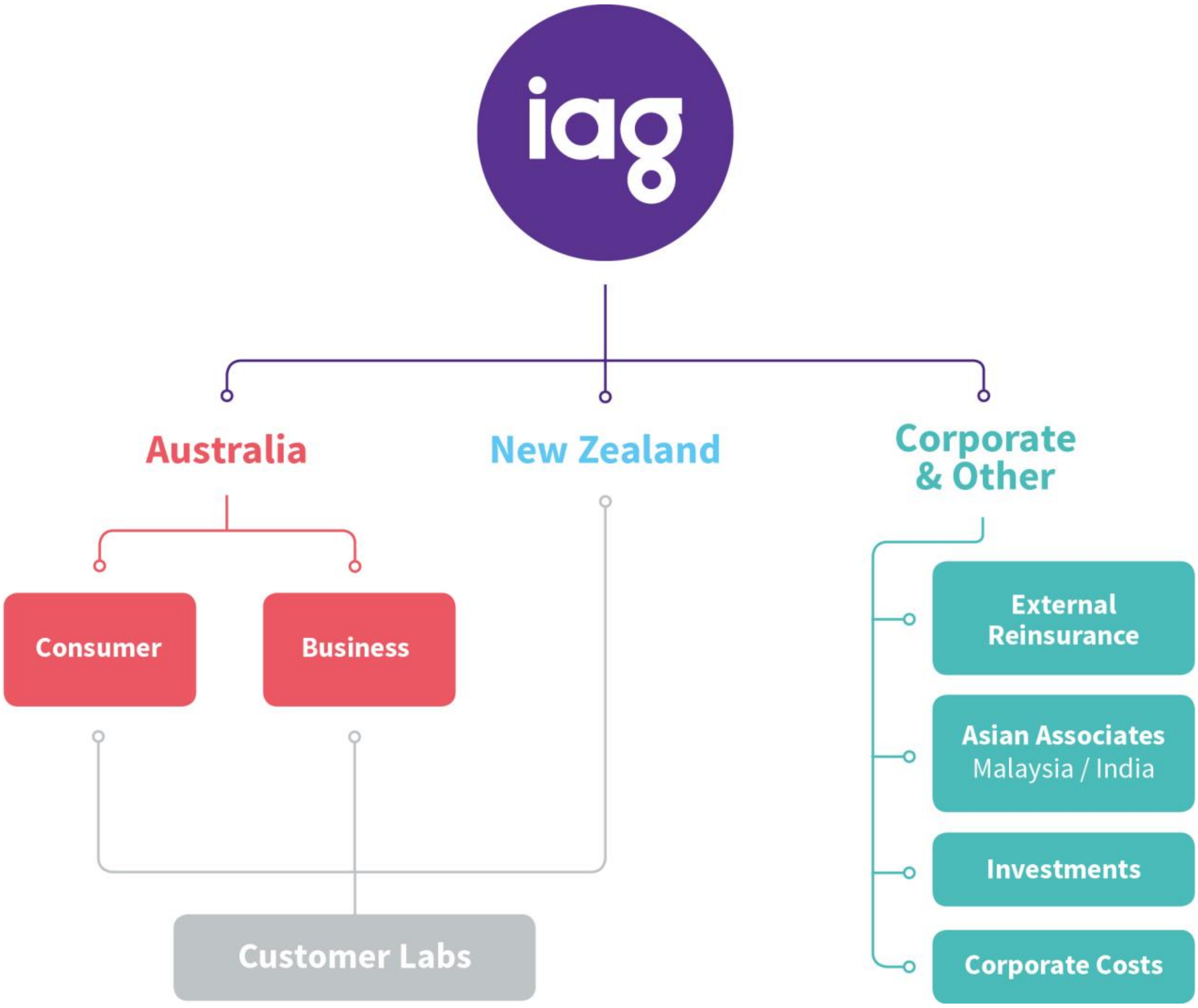
IAG targets a cash ROE of at least 1.5 times its weighted average cost of capital (WACC) on a through-the-cycle basis. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identified intangibles and unusual items.

IAG's current long term cost of capital is approximately 10%, equating to a cash ROE target of approximately 15%. In 1H19, IAG reported a cash ROE of 9.8% (1H18: 19.1%).

RETURN ON EQUITY (ANNUALISED)



6. 1H19 SEGMENT OVERVIEW



1H19 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A$m	*Consumer A$m*	*Business A$m*	New Zealand A$m	Corporate & Other A$m	Total Continuing A$m
Gross written premium	**4,606**	***3,143***	***1,463***	**1,268**	**7**	**5,881**
Gross earned premium	4,698	*3,174*	*1,524*	1,277	9	5,984
Reinsurance expense	(1,864)	*(1,273)*	*(591)*	(503)	(6)	(2,373)
Net earned premium	**2,834**	***1,901***	***933***	**774**	**3**	**3,611**
Net claims expense	(1,943)	*(1,330)*	*(613)*	(411)	(4)	(2,358)
Commission expense	(239)	*(106)*	*(133)*	(81)	(4)	(324)
Underwriting expense	(437)	*(267)*	*(170)*	(98)	-	(535)
Underwriting profit/(loss)	**215**	***198***	***17***	**184**	**(5)**	**394**
Investment income on technical reserves	89	*52*	*37*	9	4	102
Insurance profit/(loss)	**304**	***250***	***54***	**193**	**(1)**	**496**
Profit/(loss) from fee based business	9	*-*	*9*	-	(4)	5
Share of profit from associates	1	*-*	*1*	-	18	19
Total divisional results	**314**	***250***	***64***	**193**	**13**	**520**

Insurance Ratios						
Loss ratio	68.6%	*70.0%*	*65.7%*	53.1%		65.3%
Expense ratio	23.8%	*19.6%*	*32.5%*	23.2%		23.8%
Commission ratio	8.4%	*5.6%*	*14.3%*	10.5%		9.0%
Administration ratio	15.4%	*14.0%*	*18.2%*	12.7%		14.8%
Combined ratio	92.4%	*89.6%*	*98.2%*	76.3%		89.1%
Insurance margin	10.7%	*13.2%*	*5.8%*	24.9%		13.7%
Underlying insurance margin	14.8%	*17.3%*	*10.0%*	20.0%		16.2%

7. AUSTRALIA

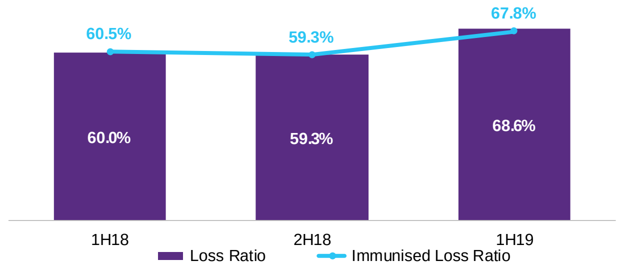
FINANCIAL PERFORMANCE

AUSTRALIA	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**4,453**	**4,691**	**4,606**
Gross earned premium	4,612	4,519	4,698
Reinsurance expense	(1,285)	(1,762)	(1,864)
Net earned premium	**3,327**	**2,757**	**2,834**
Net claims expense	(1,995)	(1,636)	(1,943)
Commission expense	(291)	(238)	(239)
Underwriting expense	(536)	(413)	(437)
Underwriting profit	**505**	**470**	**215**
Investment income on technical reserves	120	95	89
Insurance profit	**625**	**565**	**304**
Profit/(loss) from fee based business	5	(10)	9
Share of profit/(loss) from associates	2	-	1
Total divisional result	**632**	**555**	**314**

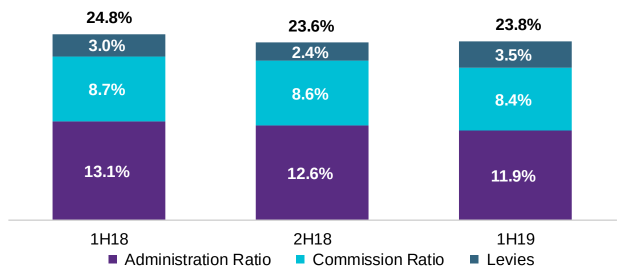
Insurance Ratios	1H18	2H18	1H19
Loss ratio	60.0%	59.3%	68.6%
Immunised loss ratio	60.5%	59.3%	67.8%
Expense ratio	24.8%	23.6%	23.8%
Commission ratio	8.7%	8.6%	8.4%
Administration ratio	16.1%	15.0%	15.4%
Combined ratio	84.8%	82.9%	92.4%
Immunised combined ratio	85.3%	82.9%	91.6%
Reported insurance margin	18.8%	20.5%	10.7%
Underlying insurance margin	11.4%	14.7%	14.8%

INSURANCE RATIOS

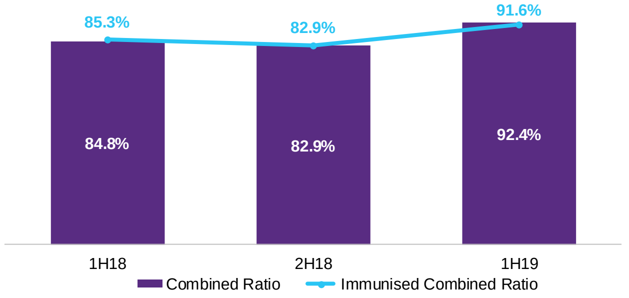
LOSS RATIO



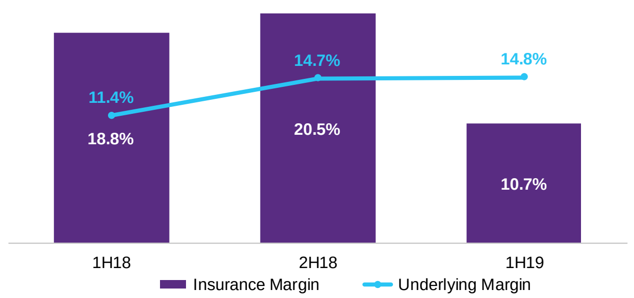
EXPENSE RATIOS



COMBINED RATIO



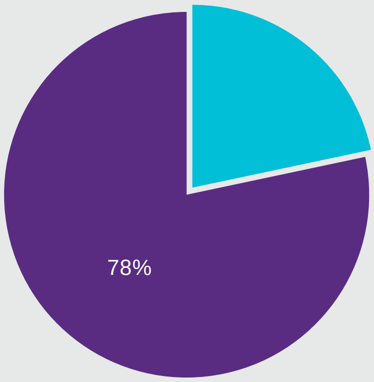
INSURANCE MARGIN



7. AUSTRALIA

EXECUTIVE SUMMARY

- IAG has leading market 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
- 1H19 GWP growth of 3.4% from ongoing rate increases in motor, home and commercial lines, with some offset from NSW CTP reform and discontinued business impacts
- Improved underlying profitability (ex-quota share effects), despite drag from NSW CTP
- Lower reported margin of 10.7% after adverse peril and credit spread movements, and reduced reserve releases
- Slightly more modest GWP growth expected in 2H19, including planned NSW CTP rate reductions
- Positive underlying margin outlook as rate increases earn through and further net cost-out benefits are realised



PREMIUMS

GWP growth of 3.4% - ongoing rate increases in most classes

Australia reported GWP of $4,606m in 1H19, an increase of 3.4% over 1H18. The overall Australian GWP outcome includes:

- Largely rate-driven growth of over 5% in short tail motor, broadly in line with claims inflation pressures;
- Home GWP growth of nearly 4%;
- Ongoing average rate momentum of ~6% in commercial lines, with some offset from lower volumes;
- An ~$25m reduction in GWP from exiting smaller business areas, such as consumer credit and retail warranty; and
- Modestly lower CTP GWP, where NSW post-scheme reform effects were countered by volume gains.

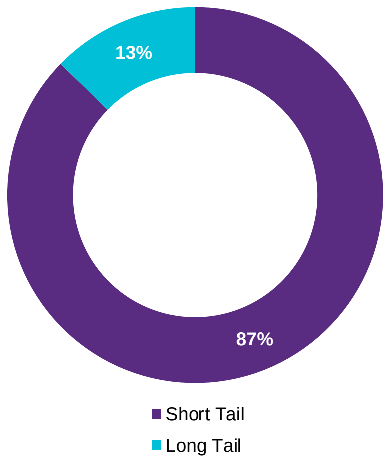
Consumer

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

Consumer GWP increased by 3.0% to $3,143m (1H18: $3,052m).

CONSUMER GWP	1H18	2H18	1H19	GWP Growth 1H19 vs 1H18
Motor	1,420	1,522	1,494	5.2%
Home	1,140	1,161	1,182	3.7%
Niche & Other	89	74	68	(23.6%)
Total Short Tail	**2,649**	**2,757**	**2,744**	**3.6%**
Long Tail	403	405	399	(1.0%)
Total Consumer GWP	**3,052**	**3,162**	**3,143**	**3.0%**

CONSUMER 1H19 GWP - TAIL



Short tail personal lines GWP represented over 87% of Consumer GWP, with nearly 98% of this derived from motor and home classes. Compared to 1H18, overall short tail GWP growth was 3.6%.

7. AUSTRALIA

Motor GWP rose 5.2%, compared to 1H18, with the majority of this rate-driven. Higher prices continued to respond to increased claim costs, which reflected underlying claims inflation and an increase in the number of motor total losses. Total motor volumes were similar to 1H18, comprising:

- Strong growth in Victoria;
- A relatively flat outcome in NSW; and
- Some volume loss in other areas.

Home GWP increased by 3.7%, compared to 1H18, from the combination of:

- Average rate increases of over 5%, which broadly matched claims inflation; and
- Lower volumes, notably in Western Australia and South Australia, and to a lesser extent NSW.

Renewal levels for both motor and home remained high and stable.

GWP from niche and other short tail lines, comprising boat, caravan, classic car, credit card, warranty and other specialty products, was nearly 24% lower than 1H18. Principal influences were:

- The absence of the retail warranty business (sold in January 2018); and
- An exit from consumer credit insurance sold through financial intermediaries, from 1H19.

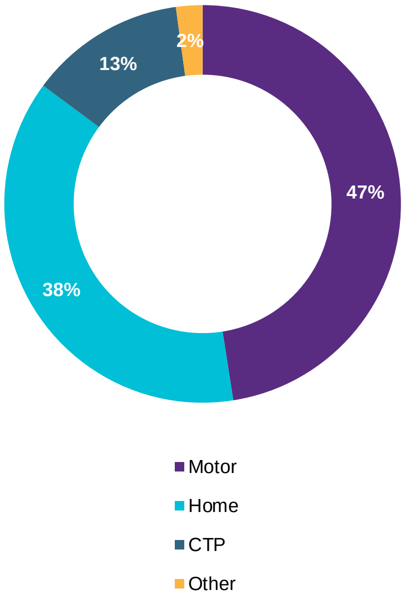
In Consumer, the main brands' online sales channel continued to register substantial growth throughout 1H19, of 20%, with NRMA Insurance conducting approximately 32% of new business sales and renewals online.

Other features of Consumer's short tail GWP outcome were:

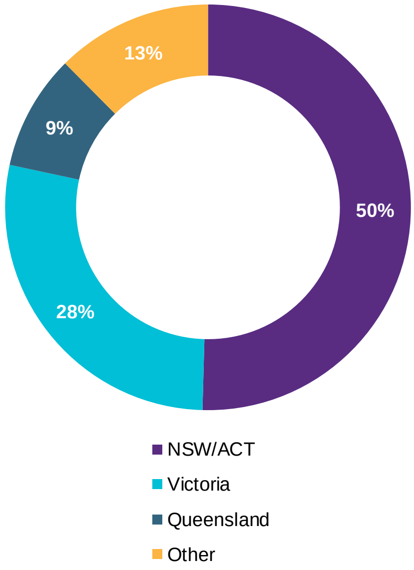
- Continued strong growth from IAL, via the intermediated channel in partnership with Steadfast; and
- Lower GWP from the SGIO brand in Western Australia, where more competitive conditions continued to be experienced.

Motor GWP growth of 5.2%, primarily rate-driven

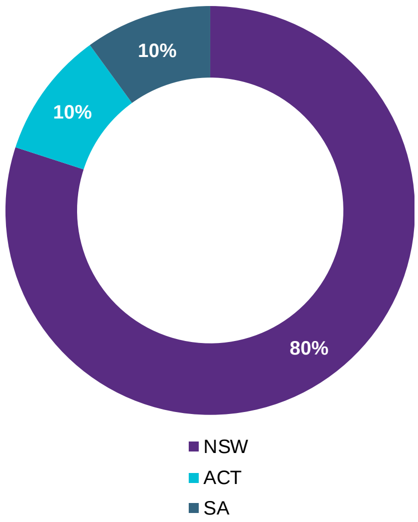
CONSUMER 1H19 GWP - CLASS



CONSUMER 1H19 SHORT TAIL GWP – STATE/TERRITORY



CONSUMER 1H19 LONG TAIL GWP – STATE/TERRITORY



7. AUSTRALIA

Long tail (CTP) GWP decreased by 1.0%, compared to 1H18. Operating in three states or territories, this reflects the combination of:

- A near-1% decline in NSW CTP GWP, with a net reduction from post-scheme reform lower rate and refund effects largely offset by strong volume growth of 4.3%. IAG's share of NSW CTP registrations (on a 12-month rolling average basis) has maintained the improvement evident since the closing months of FY17, increasing to 33.7% (1H18: 32.4%);
- A greater than 8% decrease in ACT GWP, following a decision to hold margin in a competitive market. Maintained rates resulted in a 6% fall in volumes, compared to 1H18. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) dropped slightly to 55%; and
- An increase of over 5% in South Australian GWP, comprising the annual CPI rate increase of 3% implemented by the regulator on 1 July 2018 and volume growth in an expanding market. IAG's South Australian CTP market share remains fixed at 20% until the end of FY19.

Overall CTP GWP slightly lower – influence of new NSW scheme effects

Business

IAG sells a range of commercial insurance products across Australia, primarily under the CGU, WFI, RACV, SGIO and SGIC brands. IAG's Business offering has a strong SME emphasis, and a leading market share in rural areas.

BUSINESS GWP	1H18	2H18	1H19	GWP Growth 1H19 vs 1H18
Short Tail	1,032	1,027	1,038	0.6%
Long Tail	369	502	425	15.2%
Total Business GWP	**1,401**	**1,529**	**1,463**	**4.4%**

Business GWP increased by 4.4% to $1,463m, compared to 1H18 ($1,401m). This comprised:

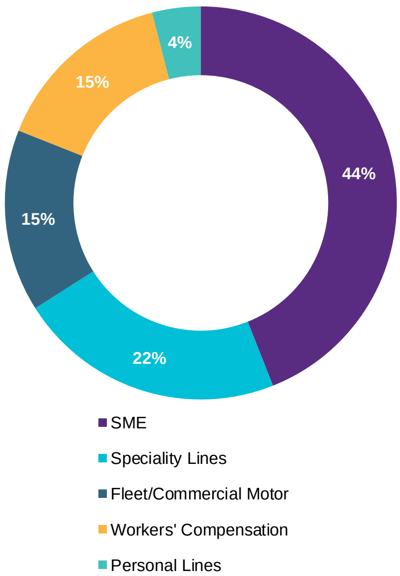
- A continuation of rate increases across most business classes;
- Strong growth in workers' compensation GWP;
- Lower volumes in packaged portfolios;
- Remediation activity serving to slightly reduce GWP in property and fleet portfolios; and
- Underwriting agency-derived growth, primarily from NTI.

Business has continued to focus on retaining quality accounts and growing in preferred segments, while maintaining underwriting and pricing discipline. Average rate increases of around 6% were achieved in 1H19, with commoditised packaged products achieving high single digit rate increases.

During 1H19 volumes associated with the complex property portfolio were adversely impacted by the continued remediation activity that commenced during FY17. The focus to reduce volatility through managing capacity and better risk selection has started to deliver improved bottom line results.

Workers' compensation GWP exceeded expectations, growing by nearly 20% compared to 1H18. This reflected a combination of rate increases on renewing accounts and higher wage levels, buoyed by improved economic conditions in Western Australia. This pronounced growth is not expected to be repeated in 2H19, owing to the renewal pattern on this product. Year-on-year new business volumes increased, however the market remains highly competitive.

BUSINESS 1H19 GWP - CLASS



7. AUSTRALIA

Packaged business GWP within the intermediated portfolio was 13% lower than 1H18. Ongoing pricing changes continued to adversely impact both new business and renewal policy volumes, however underlying profitability of the book is showing signs of improvement.

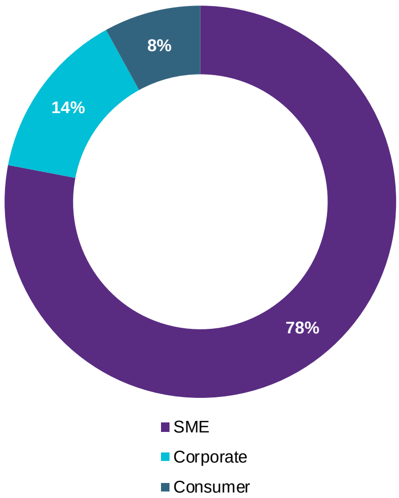
Business' crop portfolio has been impacted by the ongoing drought conditions in NSW. To date, the impact of the drought on other rural portfolios has not been as significant, with volumes remaining broadly stable.

Underwriting agencies delivered GWP growth of 10%, primarily from NTI. Positive performance was achieved across most products, led by packages, trade credit and specialised professional risk products.

The direct portfolio continued to perform well, with high single digit GWP growth supported by modest rate increases. Business continued to enhance its SME digital capability through improvements to the 'quote and buy' process and self-service flexibility, both of which contributed to policy growth. Direct represented 26% of Business' GWP in 1H19.

Long tail classes represented 29% of Business' GWP in 1H19 (1H18: over 26%). The increase predominantly reflects growth in the workers' compensation portfolio.

BUSINESS 1H19 GWP – MARKET SEGMENT



Customer Initiatives

During 1H19, the Australian business 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 making it easier for customers to purchase insurance online. Specific developments included:

- The launch of a drought assistance package for primary producer farming customers experiencing financial hardship because of the NSW and Queensland drought. The package allows for some or all of the insurance premium for these products to be deferred for up to 12 months;
- Further enhancement of SME customers' digital experience by providing a personalised, flexible and efficient 'quote and buy' process;
- Continued support of the specialised SME portal, incorporating time-saving solutions through partnerships with Airtasker, Squirrel Street and Legal Access Services;
- The transition of three suburban Sydney branches to kiosks, being part of the retail branch strategy to deliver reduced cost-to-serve and alignment with IAG's digital focus;
- The development of a young driver education program, as well as an insurance literacy program for new migrants to Australia;
- Support of the Queensland government's Household Resilience Program (which provides funding to help eligible home owners improve the resilience of their homes against cyclones) by lowering premiums for participating customers to reflect risk mitigation steps taken;
- Further innovation of IAG's single item insurance offering (Insurance4That), expanding coverage to include sporting goods, wearables, portable electronics and jewellery;
- A new landlords offering deployed in the Victorian market, designed to meet the changing needs of rental property owners and including broader coverage for damage and rent cover; and
- Ongoing improvements to customer feedback processes, including the launch of an updated Voice of Customer platform in October 2018, making it easier for Consumer brand customer-facing roles to provide input on common customer irritants that need action.

7. AUSTRALIA

The Australian brands' strong levels of service and partnership capabilities have continued to be reflected in industry recognition. In August 2018, NRMA Insurance was voted 'Direct General Insurance Company of the Year' for the third year running in a survey by the Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

REINSURANCE EXPENSE

Higher reinsurance expense reflects increased quota share effects

Australia's reinsurance expense was $1,864m, compared to $1,285m in 1H18. The 45% increase was driven by the increase in quota share entitlements associated with the combined 12.5% quota share agreements that commenced from 1 January 2018.

A similar underlying reinsurance expense to 1H18 reflected the combination of:

- Reduced placement of cover to reflect increased quota share;
- Lower commercial volumes;
- Increased gross cover, including the FY19 stop-loss protection;
- Higher renewal costs attached to commercial line per risk excess of loss cover; and
- Broadly similar catastrophe cover rates.

CLAIMS

Higher loss ratio on increased net peril costs and lower reserve releases

Australia reported a higher immunised loss ratio of 67.8% in FY18 (1H18: 60.5%). This deterioration was driven by the combination of:

- Significantly higher net natural peril claim costs; and
- Lower prior period reserve releases.

Some offset arose from the increased utilisation of IAG's preferred repairer network, countering increased average short tail claim costs, and lower large loss levels in the commercial property portfolio.

The reported loss ratio of 68.6% contained an adverse risk-free discount rate adjustment of $22m, compared to a favourable effect of $17m in 1H18.

Reserve Releases

Significant reserve releases from NSW CTP

Prior period reserve releases of $82m were less than half the level recognised in 1H18 ($175m), but remained well above long term expectations at 2.9% of NEP.

Consumer reserve releases were predominantly sourced from the NSW CTP portfolio, and followed further favourable experience against underlying assumptions for claim inflation and frequency. The prior period reserve movement for Business amounted to zero, as net long tail releases were negated by strengthening in respect of past weather events.

RESERVE RELEASES Australia	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	175	169	82
Impact on insurance margin	**5.3%**	**6.1%**	**2.9%**

Natural Perils

Unfavourable net natural peril experience, largely owing to Sydney hailstorm

Losses from natural perils (net of reinsurance) totalled $409m, which was $147m higher than the period's allowance. Central to this outcome was the Sydney hailstorm in December 2018, which produced a net cost of $162m after significant reinsurance protection. This was predominantly a Consumer event, with the majority of exposure in motor.

7. AUSTRALIA

A secondary peril event during 1H19 was the southern low which affected parts of NSW, Queensland and Victoria in mid-December 2018, and which incurred a net claims cost of $62m.

The lower net natural peril cost in 1H18 was assisted by significant protection from IAG's calendar 2017 aggregate reinsurance cover, notably in respect of the Melbourne hailstorm event in December 2017 which was capped at a net cost of $20m.

NATURAL PERILS Australia	1H18 A$m	2H18 A$m	1H19 A$m
Net natural peril claim costs	(239)	(200)	(409)
Natural peril allowance	296	250	262
Impact on insurance margin	**57**	**50**	**(147)**
Impact on insurance margin	**1.7%**	**1.8%**	**(5.2%)**

Claims Experience

Improved underlying claims performance compared to 1H18

Australia's underlying claims ratio (excluding reserve releases, natural perils and discount rate adjustments) showed sound improvement against 1H18, as well as 2H18. This improvement includes:

- The earned-through effect of higher rates;
- Lower large loss experience in commercial property;
- Benefits from increased utilisation of IAG's preferred repairer network; and
- Initial claims handling benefits from the optimisation program.

Short tail Consumer claims experience in 1H19 was characterised by:

- A further rise in average motor collision costs, including higher total losses;
- An increase in average home claim costs, resulting from inflationary increases in property repair costs and a small number of abnormally large losses; and
- Relatively stable motor frequency and a slight reduction in home frequency.

The application of higher motor premium rates, along with claim initiatives such as improved customer and quality outcomes from the motor repair relationship model, have ensured IAG has kept pace with ongoing underlying motor claim inflation.

Similarly, further rate increases implemented in home and the pursuit of initiatives to increase the utilisation of the home supply chain model across all brands have met home claim inflation pressures. There is scope for increased customer use of preferred supplier networks, based on current uptake levels of over 80% for motor and nearly 50% for home.

Improved loss ratios were recorded in commercial packages, as a result of rate increases and a lower large loss experience compared to 1H18. Reduced volatility in property portfolios, through extended remediation activity, has seen reduced large losses in 1H19 and lower working claims frequency. Rural portfolios continue to experience growing claim cost pressures.

There has been limited claims development to date on the new NSW CTP scheme and it has yet to be seen how the scheme performs over the longer term. Within 1H19, claims were slightly favourable to expectations.

The schemes in South Australia and the ACT continue to perform strongly.

7. AUSTRALIA

EXPENSES

Improved expense ratio of 23.8%, as optimisation benefits begin to emerge

The division's reported expenses totalled $676m in 1H19, compared to $827m in 1H18. The decrease includes:

- The impact of the combined 12.5% quota shares which took effect from 1 January 2018;
- Emerging net benefits from optimisation initiatives; and
- Some offset from increased regulatory and compliance costs.

The reported expense ratio was 23.8% (1H18: 24.8%), and on an ex-levies basis the administration ratio improved to 11.9%, from 13.1% in 1H18.

INSURANCE PROFIT

Further improvement in underlying margin, ex-quota share effects

Australia reported an insurance profit of $304m, compared to $625m in 1H18. This equates to a lower reported insurance margin of 10.7%, compared to the 18.8% attained in 1H18. This outcome includes the net effect of:

- An approximately 250bps uplift from the combined 12.5% quota shares which took effect from 1 January 2018;
- Lower prior period reserve releases;
- Significantly higher net natural peril claim costs; and
- An unfavourable swing in credit spread impact of over $70m.

Australia's underlying performance remained sound, with an underlying margin of 14.8%, slightly ahead of 2H18. Contributory factors to this were:

- An easing of pressure on motor profitability, as higher earned rates offset increased claim costs;
- Further flow-through of average rate increases across commercial portfolios;
- Lower large loss levels in the commercial property portfolio;
- Some offset from lower current year profitability in NSW CTP, owing to the capped profitability of the new scheme; and
- Emerging benefits from the optimisation program.

INSURANCE MARGIN IMPACTS Australia	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	175	169	82
Natural perils	(239)	(200)	(409)
Natural peril allowance	296	250	262
Credit spreads	47	(33)	(24)
Reserve releases	5.3%	6.1%	2.9%
Natural perils	(7.2%)	(7.3%)	(14.4%)
Natural peril allowance	8.9%	9.1%	9.2%
Credit spreads	1.4%	(1.2%)	(0.8%)

FEE BASED INCOME

Improved fee based income following exit from NSW workers' compensation

The principal source of fee income is IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government. FY19 is the third year of a five-year contract term.

IAG withdrew from the NSW workers' compensation scheme as at 31 December 2017 after assessment of associated risks and returns. Some minor run-off expense was incurred in 1H19.

7. AUSTRALIA

Total net income from fee based operations in 1H19 was a profit of $9m, compared to $5m in 1H18. This contained $10m of prior period fee income, which was in line with 1H18. Excluding prior period income, the underlying result was $4m higher than 1H18, reflecting the withdrawal from the unprofitable NSW scheme.

A secondary source of fee income has been the division's interest in authorised representative brokers, Community Broker Network. This was sold with effect from early October 2018.

MARKET REGULATION AND LEGISLATIVE REFORM

Royal Commission Final Report released in February 2019

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) was established on 14 December 2017 by the Governor-General of the Commonwealth of Australia. General insurance formed part of Hearing 6 in September 2018, where IAG appeared on the subject of add-on insurance sold through car dealerships, a business which it exited in 2017.

The Commissioner submitted an Interim Report to the Governor-General on 28 September 2018, and this was tabled by the Government on the same day. The Final Report was presented to the Governor-General on 1 February 2019, and on 4 February2019 the Federal Treasurer released the Government's response. The Government noted in its response the Treasury Royal Commission Taskforce will continue as a Financial Services Reform Implementation Taskforce. To ensure ongoing co-ordinated delivery of reforms, a Financial Services Reform Implementation Committee will also be established consisting of the Treasury, the Australian Securities and Investments Commission (ASIC), APRA, the Office of the Parliamentary Counsel and other agencies as required.

Royal Commission not expected to delay other legislative Reviews

At its inception, the Government 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 public policy developments and legislative Reviews in 2018-2019 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. Also:

- 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;
- The Government is tasking 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 insurance.

The insurance industry continues in dialogue with government and relevant stakeholders in relation to the above important public policy issues. Treasury released a Discussion Paper on better transparency and enhanced disclosure practices in January 2019, with submissions invited by 28 February 2019.

7. AUSTRALIA

In December 2017, Treasury released the ***Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018***. A revised exposure draft was released on 20 July 2018, for public consultation. This embraces the Financial System Inquiry's recommendations to introduce design and distribution obligations to ensure that financial products are targeted at the right people, and a product intervention power for ASIC when there is a risk of significant consumer detriment. The Bill was tabled in Parliament on 9 November 2018, with debate expected to continue once the Australian Parliament resumes in February 2019. Importantly, the Bill allows for a two-year transition period following Royal Assent of the Act.

On 27 June 2018, Treasury released a Proposals Paper relating to **unfair contract terms**, seeking views on a model that involves amending the *Insurance Contracts Act 1984* to allow unfair contracts terms laws in the *Australian Securities and Investments Commission Act 2001* to apply to insurance contracts regulated by the *Insurance Contracts Act*. The insurance industry is liaising with Treasury in relation to these proposed reforms.

In October 2016, the Minister for Revenue and Financial Services asked Treasury to undertake targeted **consultation on the merits of removing the exemption for claims handling practices from the definition of a 'financial service'** in the *Corporations Act*. This consultation will take place after the Royal Commission reports in February 2019, as the Minister indicated that claims handling will be considered by the Royal Commission.

In May 2018, the Government established the **Australian Financial Complaints Authority** (AFCA) as a one-stop-shop external dispute resolution scheme to hear all financial and superannuation disputes. AFCA commenced accepting new complaints from 1 November 2018.

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. A Final Report was tabled in Parliament on 15 November 2018. The Committee's findings align with many of the issues that have been identified by the Royal Commission. The Government is expected to respond to the Report in 2019.

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. On 16 April 2018 the Government announced it had agreed, or agreed in principle, to all 50 of the ASIC Enforcement Review Taskforce's recommendations and will prioritise the implementation of 30 of the recommendations. The remaining 20 recommendations relate to self-reporting of breaches, industry codes and ASIC's directions powers, which will be considered alongside the final report of the Royal Commission.

The **Productivity Commission** conducted a 12-month **inquiry into competition in Australia's financial system**. A Consultation Paper was released in July 2017 and a Draft Report on 7 February 2018. The Final Inquiry Report was released on 3 August 2018 and included five recommendations specifically related to general insurance:

- That comparative pricing information is provided on renewal notices;
- Increased brand transparency in underwriting;
- A phasing out of distortionary taxes;
- A deferred sales model for add-on insurance; and
- A review of the general insurance *National Consumer Credit Protection Act 2009 (Cth)* exemption.

The Government is expected to respond following the Royal Commission's Final Report in February 2019.

7. AUSTRALIA

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 first Interim Report was released by the Government on 18 December 2018 and comprised 15 initial recommendations, including:

- Abolishing stamp duty on insurance products;
- Revising standard cover for insurance products and extending standard definitions;
- Improving how information is disclosed to consumers; and
- Prohibiting conflicted remuneration for insurance brokers.

The Interim Report also outlined a number of focus areas for the ACCC's work in 2019, including consultation on 13 additional recommendations, as well as undertaking detailed case studies. The Australian Government is considering its response to the ACCC's recommendations alongside other reports and inquiries, such as the Royal Commission and the Government's response to the Productivity Commission's Report into Competition in the Australian Financial System, and will respond in early 2019.

The Australian Government announced on 10 April 2018 the establishment of a **National Resilience Taskforce** to reduce the impacts of natural disasters on the Australian community. The Taskforce's priority is to develop a five-year national disaster mitigation framework to reduce the impact of disasters. The framework will be developed in consultation with the states and territories and the private sector, including insurance and finance, and will seek to limit risks, provide prevention strategies and improve decision-making. The insurance industry continues to work with the Taskforce.

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. The Committee's Final Report, *Non-conforming building products: the need for a coherent and robust regulatory regime*, was tabled in Parliament on 4 December 2018 and handed down 13 recommendations around national consistency and regulation, better consultative and reporting mechanisms and border protection. The Government will respond in 2019.

The Senate **Inquiry into Impacts of Climate Change on housing, buildings and infrastructure** (including insurance arrangements) was announced in May 2017. The Final Report was issued on 13 August 2018 and discussed how climate change is influencing developments in the markets for insurance and property finance. The Government is expected to respond in 2019.

The introduction of the **Fire and Emergency Services Levy** (FESL) was deferred by the NSW Government on 30 May 2017. In the wake of this deferral, emergency services funding via the Emergency Services Levy (ESL) continued to be collected through property insurance policies from 1 July 2017. On 22 June 2017, the NSW Legislative Council Inquiry into FESL was announced. IAG made a submission to the Inquiry and appeared at the Inquiry's public hearings. The Parliamentary Committee released its Final Report on 30 November 2018 and advised that the NSW Government will be required to respond by 28 February 2019.

7. AUSTRALIA

On 30 November 2018, the NSW Emergency Services Levy Insurance Monitor released a Discussion Paper on the **pricing differences observed on new versus existing policies on combined home and contents insurance**. Submissions were due 20 December 2018. The Monitor has indicated that one of the general outcomes of its analysis may be a review of the current Guidelines in relation to the prohibition against price exploitation, and false or misleading conduct, to determine whether any amendments are required to address the matters outlined in this Discussion Paper. The insurance industry has provided a submission.

APRA has sought a written **risk governance assessment** from the largest financial institutions in Australia, including IAG. IAG's assessment was provided on 30 November 2018.

On 7 November 2018, IAG appeared before the Senate Education and Employment References Committee **Inquiry into Mental Health Conditions** experienced by first responders, emergency service workers and volunteers. Mental health claims present a significant challenge to personal injury schemes across the country. The Committee will table its report in early February 2019. The Government has also asked the Productivity Commission to undertake an Inquiry to examine the effect of supporting mental health on economic and social participation, productivity and the Australian economy. The Commission plans to release an Issues Paper to guide people in preparing a submission, and will advise when this Paper will be released. Initial submissions are due 5 April 2019.

The Western Australian Parliament's Economics and Industry Standing Committee **Inquiry into Western Australia's Automotive Smash Repair Industry** tabled its Final Report in Parliament on 29 November 2018. IAG appeared before the Committee on 12 September 2018. Included in the Final Report was a recommendation that the Western Australian Treasurer write by 28 February 2019 to the Commonwealth Treasurer seeking agreement to direct the ACCC, under the *Competition and Consumer Act 2010*, to undertake an in-depth inquiry into possible anti-competitive conduct and misuse of power in Australia's smash repair industry.

On 17 October 2018, the National Transport Commission released a Discussion Paper examining whether there is a need to **change existing compulsory motor accident injury insurance schemes to cover automated vehicles**. Submissions were due on12 December 2018. Feedback from this consultation will be used to develop policy directions and recommendations for the Transport and Infrastructure Council meeting in May 2019.

OUTLOOK

Sound GWP growth anticipated in Australia over balance of FY19, alongside improved underlying margin

Sound overall GWP growth is expected from Australia over the balance of FY19, albeit at a slightly lower level than 1H19. Predominantly drawn from rate increases, this growth is also expected to embrace:

- A lower level of growth in workers' compensation GWP;
- The impact of reduced rates in NSW CTP, with a planned reduction of 3.6% effective from March 2019; and
- Further remediation action in commercial portfolios, translating to lower volumes.

Within Consumer, the combined effect of rate increases and claim initiatives is expected to offset claim inflation pressures, enabling the maintenance of margins in short tail lines, prior to consideration of emerging cost-out benefits.

7. AUSTRALIA

Lower current year long tail CTP returns are anticipated, reflecting the cap on profitability under the new NSW scheme and the absence of initial reform measure effects which assisted old scheme profitability in FY18.

Modestly positive Business GWP growth is expected in 2H19, skewed towards direct channels where development of an enhanced SME proposition is expected to drive longer term incremental growth. In intermediated portfolios, ongoing rate increases are expected to be offset by some volume loss, as remediation actions continue.

The benefits from already implemented rate activity and remediation within the property and fleet portfolios, along with reduced large loss experience, are expected to further improve the underlying Business margin.

The underlying profitability of both Consumer and Business is expected to incorporate growing assistance from IAG's optimisation activities, as benefits progressively accrue over the balance of FY19 and into FY20.

The Australia Division aims to capitalise on the growth opportunities available in its external operating environment, following its two-year focus on simplifying its operating model and building an agile organisation distinguished by innovation, speed and execution.

7. AUSTRALIA

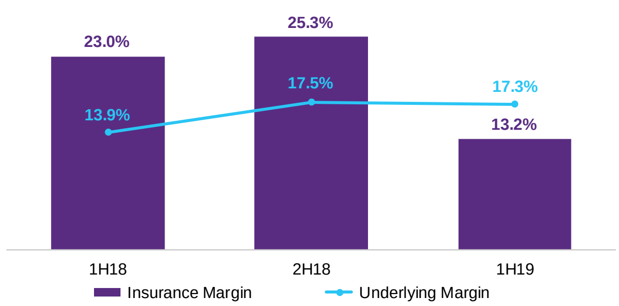
AUSTRALIA – SEGMENTAL FINANCIAL PERFORMANCE

	CONSUMER			BUSINESS		
	1H18 A$m	2H18 A$m	1H19 A$m	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**3,052**	**3,162**	**3,143**	**1,401**	**1,529**	**1,463**
Gross earned premium	3,092	3,035	3,174	1,520	1,484	1,524
Reinsurance expense	(878)	(1,208)	(1,273)	(407)	(554)	(591)
Net earned premium	**2,214**	**1,827**	**1,901**	**1,113**	**930**	**933**
Net claims expense	(1,345)	(1,071)	(1,330)	(650)	(565)	(613)
Commission expense	(122)	(106)	(106)	(169)	(132)	(133)
Underwriting expense	(315)	(249)	(267)	(221)	(164)	(170)
Underwriting profit	**432**	**401**	**198**	**73**	**69**	**17**
Investment income on technical reserves	77	61	52	43	34	37
Insurance profit	**509**	**462**	**250**	**116**	**103**	**54**
Profit/(loss) from fee based business				5	(10)	9
Share of profit from associates				2	-	1
Total divisional result	**509**	**462**	**250**	**123**	**93**	**64**

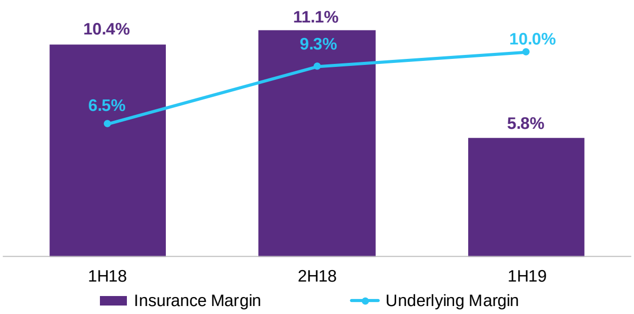
Insurance Ratios	1H18	2H18	1H19	1H18	2H18	1H19
Loss ratio	60.7%	58.6%	70.0%	58.4%	60.8%	65.7%
Immunised loss ratio	61.2%	58.6%	69.3%	59.0%	60.6%	64.6%
Expense ratio	19.7%	19.4%	19.6%	35.1%	31.8%	32.5%
Commission ratio	5.5%	5.8%	5.6%	15.2%	14.2%	14.3%
Administration ratio	14.2%	13.6%	14.0%	19.9%	17.6%	18.2%
Combined ratio	80.4%	78.0%	89.6%	93.5%	92.6%	98.2%
Immunised combined ratio	80.9%	78.0%	88.9%	94.1%	92.4%	97.1%
Reported insurance margin	23.0%	25.3%	13.2%	10.4%	11.1%	5.8%
Underlying insurance margin	13.9%	17.5%	17.3%	6.5%	9.3%	10.0%

INSURANCE MARGIN IMPACTS	1H18 A$m	2H18 A$m	1H19 A$m	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	134	133	82	41	36	-
Natural perils	(144)	(124)	(312)	(95)	(76)	(97)
Natural perils allowance	204	172	184	92	78	78
Credit spreads	30	(21)	(13)	17	(12)	(11)
Reserve releases	6.1%	7.3%	4.3%	3.7%	3.9%	-
Natural perils	(6.5%)	(6.8%)	(16.4%)	(8.5%)	(8.2%)	(10.4%)
Natural perils allowance	9.2%	9.4%	9.7%	8.3%	8.4%	8.4%
Credit spreads	1.4%	(1.1%)	(0.7%)	1.5%	(1.3%)	(1.2%)

AUSTRALIA CONSUMER – MARGINS



AUSTRALIA BUSINESS - MARGINS



8. NEW ZEALAND

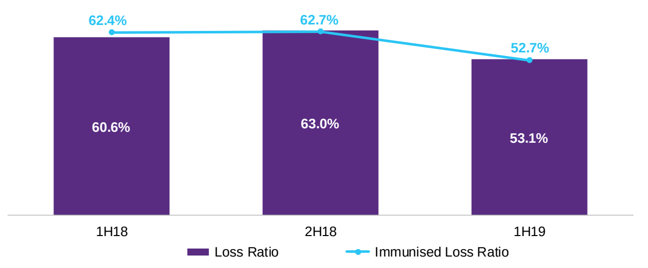
FINANCIAL PERFORMANCE

NEW ZEALAND	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**1,190**	**1,296**	**1,268**
Gross earned premium	1,160	1,214	1,277
Reinsurance expense	(323)	(471)	(503)
Net earned premium	**837**	**743**	**774**
Net claims expense	(507)	(468)	(411)
Commission expense	(95)	(80)	(81)
Underwriting expense	(117)	(104)	(98)
Underwriting profit	**118**	**91**	**184**
Investment income on technical reserves	1	8	9
Insurance profit	**119**	**99**	**193**

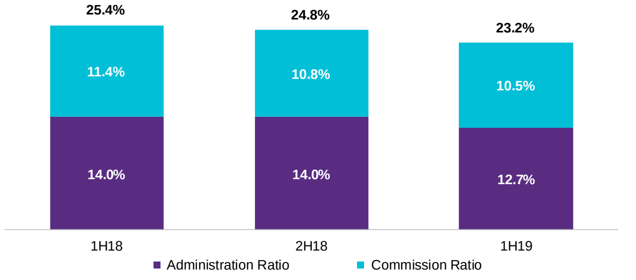
Insurance Ratios	1H18	2H18	1H19
Loss ratio	60.6%	63.0%	53.1%
Immunised loss ratio	62.4%	62.7%	52.7%
Expense ratio	25.4%	24.8%	23.2%
Commission ratio	11.4%	10.8%	10.5%
Administration ratio	14.0%	14.0%	12.7%
Combined ratio	86.0%	87.8%	76.3%
Immunised combined ratio	87.8%	87.5%	75.9%
Reported insurance margin	14.2%	13.3%	24.9%
Underlying insurance margin	17.4%	17.8%	20.0%

INSURANCE RATIOS

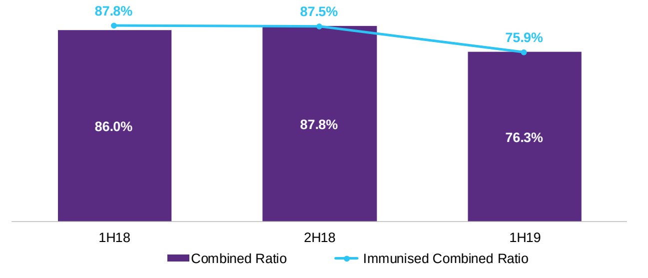
LOSS RATIO



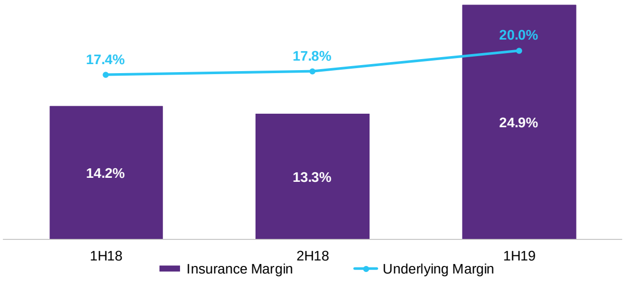
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN

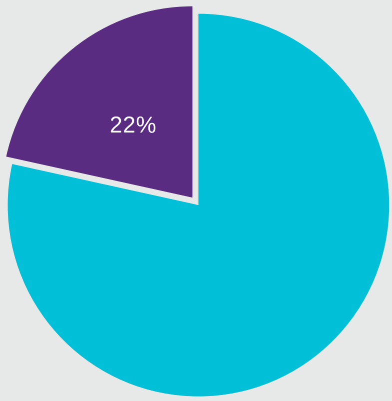


8. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- Local currency GWP growth of 5.5%, driven by continued rate increases supplemented by volume growth in private motor
- Strong underlying operating performance maintained, with an underlying margin of 20.0%
- Higher reported margin following particularly benign perils experience
- Strong performance expected over the balance of FY19, with further GWP growth and a broadly similar underlying margin to 1H19

New Zealand - % Group GWP



PREMIUMS

New Zealand's local currency GWP grew by 5.5% in 1H19, to NZ$1,371m (1H18: NZ$1,299m). This result encompassed:

- Sustained GWP growth in the Consumer Division, led by the private motor vehicle and home portfolios, driven largely by higher rates; and
- Solid GWP growth in the Business Division, as rate increases in both commercial and personal lines were partially offset by some volume loss as the business maintained its strong underwriting disciplines.

In reported terms, New Zealand recorded GWP growth of 6.6%, to $1,268m, following a favourable foreign exchange translation effect.

The Consumer Division represented 59% of New Zealand's GWP in 1H19 (1H18: 59%) and achieved GWP growth of 5.8% in local currency terms, compared to 1H18. The AMI brand continued to lead this growth, particularly in the home and private motor portfolios, achieving both volume and rate increases.

Retention rates in Consumer's combined direct brands (AMI and State) were similar to the same period last year, with new business growth marginally down on 1H18 levels.

Personal lines products written through banking partners achieved local currency GWP growth of 7% in 1H19, predominantly from higher rates. Customer retention increased on 1H18 levels across all the main bank portfolios, partially offset by a slight decline in new business growth.

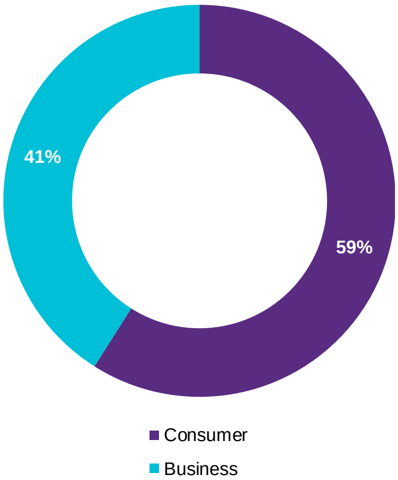
The direct SME distribution channel continued to generate strong growth in 1H19. Local currency GWP growth of nearly 10% was achieved versus 1H18, led by the commercial motor portfolio.

Providing positive customer experiences and affordable insurance solutions remain key priorities for the New Zealand business. Both AMI and State's customer net promoter scores improved over the course of 1H19 as they deliver insurance propositions that meet customers' needs.

In September 2018, AMI donated smoke alarms to Fire and Emergency New Zealand as part of its daylight-savings campaign. The alarms are being installed during home fire safety visits by Fire and Emergency New Zealand in remote, isolated communities. In addition, AMI's partnership with the New Zealand Transport Authority, trialling solar-panelled advance warning stop signs, has seen exceptional results. The lights have been trialled at eleven high risk intersections around the country over the past two years, with the number of crashes at these intersections reducing to zero.

5.5% increase in local currency GWP

NEW ZEALAND 1H19 GWP - DIVISION



8. NEW ZEALAND

IAG's strategic priority of providing world-leading customer experiences was recognised at the 2019 Reader's Digest Quality Service Awards. AMI was awarded the Gold Quality Service Award for Home and Contents Insurance. The awards are based on customer votes and recognise companies who have gone above and beyond their customers' expectations.

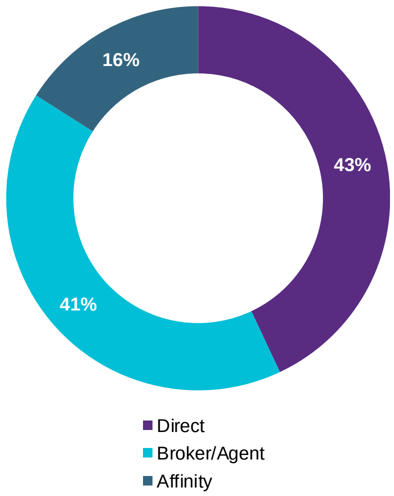
The Business Division represented 41% of New Zealand's GWP in 1H19 (1H18: 41%), with local currency GWP growth of 5.3%. Growth in the Business Division was led by the commercial motor portfolio, which achieved an increase of 10%. Premium growth in the Business division was driven predominantly by higher rates, but at a lower pace than that witnessed in FY18. This was offset by some volume loss as the division continues to exercise disciplined underwriting and appropriately price for risk.

The commercial market remained competitive in 1H19. New business growth improved in the property and liability portfolios, with a slight decline in commercial motor. Retention rates improved across all commercial lines.

Business Division's personal lines achieved local currency growth of over 5%, as rates improved on FY18 experience. This was particularly so in the home and private motor portfolios.

IAG was named Women's Employer of the Year 2018 at the ANZIIF New Zealand Insurance Industry Awards held in November 2018. The award reflects IAG's commitment to creating a diverse workforce. IAG has extended its commitment to diversity by becoming the Premier Partner of the 2018 NZI Rural Women New Zealand Business Awards. The awards celebrate and recognise New Zealand rural businesswomen and their contributions to business, the environment and the community.

NEW ZEALAND 1H19 GWP - CHANNEL



REINSURANCE EXPENSE

New Zealand's reinsurance expense was $503m, compared to $323m in 1H18. The over-55% increase was driven by higher quota share entitlements (from 20% to 32.5%) associated with the combined quota share agreements that commenced from 1 January 2018.

The underlying reinsurance expense was slightly lower than 1H18, influenced by the combination of:

- Reduced placement of cover to reflect increased quota share;
- Modest aggregate growth in personal lines;
- Slightly lower commercial volumes;
- Increased gross cover, including the FY19 stop-loss protection; and
- Broadly similar catastrophe cover rates.

Higher reinsurance expense reflects quota share effects

CLAIMS

New Zealand produced a significantly lower immunised loss ratio of 52.7% in 1H19 (1H18: 62.4%). This improved outcome was derived from:

- Benign natural peril experience, with related net claim costs of $5m (1H18: $17m);
- Minor reserve releases, compared to net prior period strengthening of over $50m in 1H18; and
- A reduction in large claims experience compared to 1H18.

The reported loss ratio of 53.1% (1H18: 60.6%) included a minor adverse foreign exchange impact from reinsurance recoveries tied to the FY11 earthquakes, as held by the Singapore captive, compared to a favourable effect of $16m in 1H18. A corresponding positive effect is included in investment income on technical reserves, resulting in no net margin impact.

Significantly lower claims ratio driven by favourable movements in perils and reserve releases

8. NEW ZEALAND

New Zealand experienced a particularly benign level of natural peril activity in 1H19, with the comparable period in 1H18 also enjoying a below-normal incidence of perils. Net related claim costs were $37m below allowance, with no significant events during the period. Both periods are in contrast to 2H18, which saw several large weather events.

NATURAL PERILS New Zealand	1H18 A$m	2H18 A$m	1H19 A$m
Net natural peril claim costs	(17)	(83)	(5)
Natural peril allowance	43	36	42
Impact on insurance margin	**26**	**(47)**	**37**
Impact on insurance margin	**3.1%**	**(6.4%)**	**4.8%**

Negligible prior period reserve releases occurred in 1H19, a significant difference to 1H18 which saw over $50m of reserve strengthening owing to:

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

Negligible prior period reserve releases

RESERVE RELEASES New Zealand	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	(53)	14	1
Impact on insurance margin	**(6.3%)**	**1.9%**	**0.1%**

Large claim (greater then NZ$100,000) experience in 1H19 was below both expectations and the same period last year, as fewer large claims were incurred.

Lower large claim experience

Working claim experience in 1H19 was largely in line with 1H18, and was lower than expectations. Both average claim cost and frequency were similar to the same period last year.

EARTHQUAKE SETTLEMENTS

Steady progress continues to be made with the settlement of claims associated with the FY11 Canterbury earthquake events. At 31 December 2018 nearly NZ$6.8bn of claim settlements had been completed, and fewer than 1,200 claims remained open out of more than 90,000 received.

No change to reserved position for FY11 Canterbury earthquake events

During 1H19 there was no change to IAG's gross reserved position on the three major earthquakes in FY11, with considerable legacy reinsurance protection available for the September 2010 and June 2011 events, and approximately NZ$540m of adverse development cover available for the February 2011 event.

Outstanding Canterbury earthquake claims include those subject to dispute and litigation or involving high customer utilisation of independent expert advice, as well as recently-received over-cap claims from the Earthquake Commission (EQC). It remains IAG's expectation that finalisation of all residual claims will take several years given associated complexity.

The settlement of claims associated with the November 2016 Kaikoura earthquake is well-advanced. As at 31 December 2018, 96.7% of all claims by number had been fully settled, and all residential dwelling assessments were complete.

8. NEW ZEALAND

EXPENSES

Lower expenses influenced by new quota share effects

New Zealand's reported expenses totalled $179m in 1H19, compared to $212m in 1H18. Most of the greater than 15% decrease in expenses was due to the impact of the combined 12.5% quota shares which took effect from 1 January 2018.

Excluding quota share impacts, the underlying expense base was slightly down on 2H18, reflecting emerging benefits from optimisation initiatives as the effects of operational partnering and technology simplification programs gathered momentum. The 1H19 administration ratio improved to 12.7% (1H18: 14.0%).

INSURANCE PROFIT

Strong underlying performance maintained

The New Zealand business produced a significantly higher insurance profit of $193m in 1H19, compared to $119m in 1H18. This equates to a reported insurance margin of 24.9% (1H18: 14.2%) with the improvement reflecting a combination of:

- The impact from the combined 12.5% quota shares which took effect from 1 January 2018, adding approximately 250bps to the 1H19 margin;
- An increase in gross earned premium, driven by cumulative GWP growth in both the Consumer and Business divisions;
- An absence of prior period reserve strengthening;
- A reduction in large claims compared with 1H18; and
- Emerging net benefits from optimisation activities.

INSURANCE MARGIN IMPACTS New Zealand	1H18 A$m	2H18 A$m	1H19 A$m
Reserve releases	(53)	14	1
Natural perils	(17)	(83)	(5)
Natural peril allowance	43	36	42
Reserve releases	(6.3%)	1.9%	0.1%
Natural perils	(2.0%)	(11.2%)	(0.6%)
Natural peril allowance	5.1%	4.8%	5.4%

The New Zealand business continues to generate a strong underlying performance, with an increase in underlying margin to 20.0% (1H18: 17.4%) including the uplift of approximately 250bps from increased quota share effect, versus 1H18.

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

Proposed EQC changes – no material impact on industry GWP anticipated

The New Zealand Government has introduced legislation to enact a small number of discrete **changes to the *Earthquake Commission Act***, including:

- The cessation of EQC's contents cover of NZ$20,000;
- Increasing the amount of the EQC residential property cover from NZ$100,000 to NZ$150,000;
- Changes to claim lodgement time limits; and
- Transitional arrangements.

These changes are expected to come into force on 1 July 2019. The impact of these changes on industry GWP is not expected to be material.

8. NEW ZEALAND

In November 2018, the Government announced a **public inquiry into the EQC**. The inquiry will have the powers of a Royal Commission and aims to "learn from the experience of the Canterbury earthquakes and ensure that the Earthquake Commission is fit for purpose in future events".

The inquiry will investigate the EQC's operational practices during the Canterbury earthquakes. The scope includes the impacts on customers, the interplay between the EQC and insurers and the impacts of operational changes applied to later events. Issues relating to insurance contract law, other insurers and reinsurers are excluded from the inquiry. The findings will inform a second round of *Earthquake Commission Act* reforms which are expected in the second half of 2019.

The Ministry of Business, Innovation and Employment completed consultation on its **insurance contract law issues** paper and continues to review the submissions it received. Potential reform topics include:

- Disclosure obligations and remedies for non-disclosure;
- Insurers' conduct and supervision;
- Exceptions from unfair contract terms provisions; and
- Difficulties comparing and changing providers and policies.

An options paper detailing proposed reforms is due in early 2019, with legislation expected to be introduced in mid-to-late 2019.

The Reserve Bank of New Zealand's **review of the *Insurance Prudential Supervision Act*** has been put on hold due to prioritisation of other supervisory issues, with no date given for when it will proceed.

Detailed design of changes to the **Fire and Emergency Levy** (under the *Fire and Emergency New Zealand Act*) continues. The focus of consultation remains the calculation method and reporting requirements. An Amendment Bill has been introduced to Parliament to extend the in-force date to 1 July 2021. Levy changes are expected to result in operational changes to systems and products.

OUTLOOK

Further GWP growth expected in 2H19, while underlying profitability anticipated to remain strong

Competitive conditions similar to those of 1H19 are expected across the New Zealand market in the second half FY19.

Solid GWP growth is expected over the course of 2H19 in both the Business and Consumer divisions, driven largely by rate increases in personal and commercial lines as the New Zealand business maintains its market-leading position. Some further easing in the pace of rate increases is anticipated.

IAG's New Zealand business remains focused on meeting the needs of both personal and business customers by providing world-leading insurance solutions in dynamic market conditions.

New Zealand's strategic priorities continue to be:

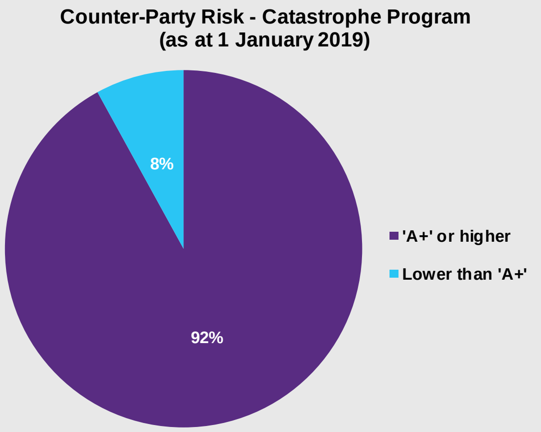
- The delivery of strong sustainable profitability with a clear focus on robust underwriting and pricing disciplines, alongside disciplined expense management;
- Simplification and technological rationalisation to drive efficiencies, in line with the IAG-wide optimisation program; and
- Continued development of a digital proposition to provide world-leading customer experiences through collaboration with Customer Labs.

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

9. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Catastrophe program renewed 1 January 2019 with similar structure to prior years
- Calendar 2019 gross catastrophe cover increased to $9bn – additional protection above modelled exposure
- Catastrophe cover placed to 67.5% to reflect quota share agreements
- Group maximum event retention (MER) of $169m at 1 January 2019, post-quota share
- Additional FY19 perils (stop-loss) cover of $101m in excess of $608m (post-quota share), directly above perils allowance



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 Gross Earned Premium. 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 2019 continue to reflect IAG's conservative approach to catastrophe protection. IAG procures limits greater than the Australian regulator's 1-in-200-year return period requirement, and also above the 1-in-1,000-year return period requirement for New Zealand. The higher limits compensate for possible deficiencies in current catastrophe models.

IAG's Australia-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 treaty business, as well as a substantial amount from IAG's joint venture interests in Asia. IAG's international business units continue to place some facultative reinsurance directly with the external market.

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

MARKET ENVIRONMENT

Following the significant losses experienced during the last quarter of 2017 in the US and the Caribbean, the impact on global reinsurance pricing during 2018 was significantly less than originally anticipated. While there has been modest upwards pressure on reinsurance rates in some territories, reinsurance capital levels remain high. Consequently, market conditions across all classes of business should continue to be consistent for purchasers of reinsurance for the 2019 year.

Relatively flat reinsurance rates experienced at 2019 catastrophe renewal

WHOLE-OF-ACCOUNT QUOTA SHARE

Since 2015, IAG has increased its use of more efficient reinsurance capital via quota shares. 32.5% of IAG's consolidated business is now subject to quota share on a whole-of-account basis, comprising:

- The ten-year, 20% arrangement with Berkshire Hathaway commencing 1 July 2015, for losses occurring after that date; and

32.5% of consolidated business subject to quota share

9. REINSURANCE

- 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 in excess of five years.

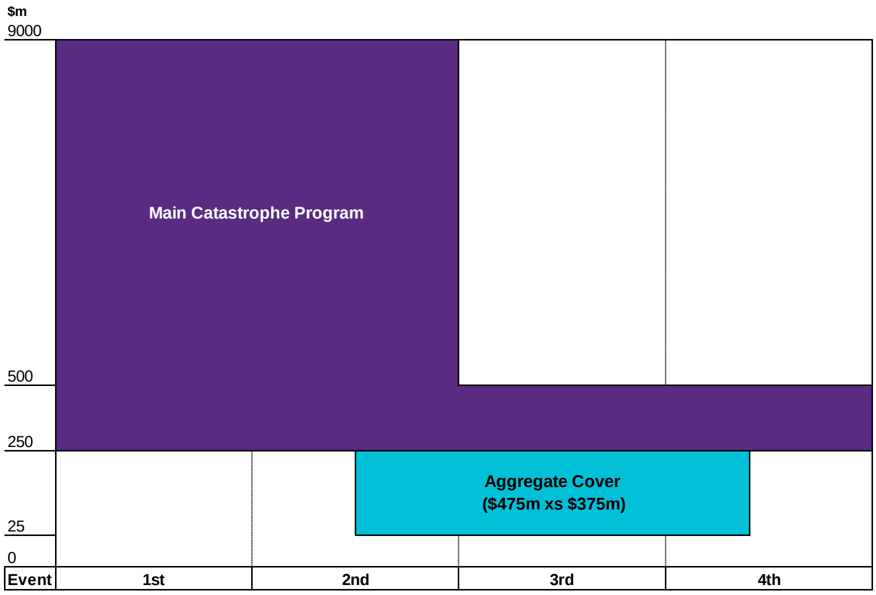
The individual agreements deliver similar benefits and financial effects, on a pro rata basis. These include reduced earnings volatility, as insurance risk is effectively exchanged for a more stable fee income stream, a lower requirement for catastrophe reinsurance and reduced exposure to volatility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

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 2019 catastrophe reinsurance program has been constructed in a similar manner to prior years. Increased gross reinsurance cover of $9bn (2018: $8bn) provides additional protection above modelled exposure and is placed to the extent of 67.5%, after allowance for quota shares. Compared to calendar 2018, underlying aggregate exposure is expected to show a modest increase in Australia and growth of approximately 5% in New Zealand.

GROSS CATASTROPHE REINSURANCE – AS AT 1 JANUARY 2019



Gross catastrophe cover of up to $9bn, placed to 67.5% to reflect quota shares

At renewal on 1 January 2019 the integrated catastrophe program comprised two key components:

- A main cover for losses up to $9bn, 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 $375m ($321m excess of $253m, 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 $175m ($118m post-quota share) and a subsequent event to $25m ($17m post-quota share).

9. REINSURANCE

CALENDAR 2019 CATASTROPHE REINSURANCE PROGRAM		
Cover	**Gross**	**Net of quota share (67.5%)**
Main cover	$8.75bn xs $250m	$5.91bn xs $169m
Aggregate cover	$475m xs $375m	$321m xs $253m
Aggregate cover qualifying events	$225m xs $25m	$152m xs $17m
Retentions	**Gross**	**Net of quota share (67.5%)**
First event	$250m	$169m
Second event	$175m	$118m
Subsequent event	$25m	$17m

In addition, IAG has a reinsurance cover for retained natural perils which runs in line with the financial year (stop-loss cover) and provides $150m of protection in excess of $900m (pre-quota share) for the 12 months to 30 June 2019, or $101m excess of $608m post-quota share. This attaches directly above IAG's FY19 natural perils allowance.

FY19 protection includes stop-loss cover of $101m, flush with perils allowance

The combination of all catastrophe covers in place at 1 January 2019 results in post-quota share first event retentions of $169m for Australia and NZ$169m for New Zealand.

MER of $169m

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.

62.5% of CTP subject to quota share

RUN-OFF PORTFOLIO PROTECTION

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

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

Run-off portfolio protections completed in FY16

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 2018.

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.

9. REINSURANCE

COUNTER-PARTY RISK

The counter-party credit profiles for IAG's key reinsurances as at 1 January 2019 are:

- 92% of limits placed with 'A+' or higher rated entities for the calendar 2019 property catastrophe program; and
- 100% of limits placed with 'A+' or higher rated entities for the casualty program.

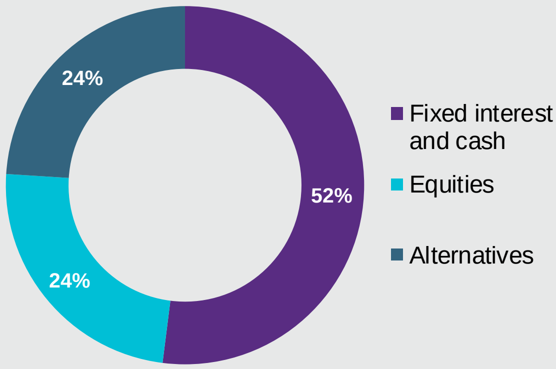
Strong counter-party risk profile maintained

10. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $10.6bn as at 31 December 2018
- Overall investment allocation remains conservatively positioned
- Technical reserves of $6.1bn invested in fixed interest and cash
- Shareholders' funds of $4.5bn – defensive asset weighting of 52% at 31 December 2018
- Solid investment return on technical reserves
- Significantly weaker shareholders' funds income owing to lower equity markets
- Strong credit quality maintained: 74% 'AA' or higher

Shareholders' Funds Mix – 31 December 2018



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 is conservatively positioned, with nearly 80% of total investments in fixed interest and cash as at 31 December 2018. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 52%.

IAG's allocation to growth assets was 48% of shareholders' funds at 31 December 2018, compared to 43% at 30 June 2018.

Distinct investment strategies for technical reserves and shareholders' funds

GROUP INVESTMENT ASSETS

The Group's investments totalled $10.6bn as at 31 December 2018, excluding investments held in joint ventures and associates, with over 57% represented by the technical reserves portfolio. The decrease in total investments since 30 June 2018 reflects the combined effect of:

- A $0.2bn reduction in technical reserves, in response to further quota share and prior period reserve release effects; and
- A $0.2bn decrease in shareholders' funds, reflecting the net effect of:
  - The $592m capital management initiative completed in November 2018;
  - Payment of the final dividend of $473m in September 2018;
  - Receipt of over $500m of sale proceeds from the divestment of the Thailand operations at the end of August 2018; and
  - Operating earnings during the period.

Total investments reduced to $10.6bn, reflecting further quota share and capital management effects

10. INVESTMENTS

GROUP INVESTMENT ASSETS	1H18 A$bn	FY18[1] A$bn	1H19[1] A$bn
Technical reserves	7.5	6.3	6.1
Shareholders' funds	4.1	4.7	4.5
Total investment assets	**11.6**	**11.0**	**10.6**

[1] *Excludes investment assets relating to consolidated Asian businesses held for sale.*

ASSET ALLOCATION

Nearly 80% of investments in fixed interest and cash

Since 30 June 2018, the main change to asset mix has been an increased allocation to growth assets within shareholders' funds. This reflects:

- The allocation of Thailand sale proceeds, received in August 2018; and
- Payment of the $592m capital management initiative from fixed interest and cash assets at the end of November 2018.

GROUP ASSET ALLOCATION

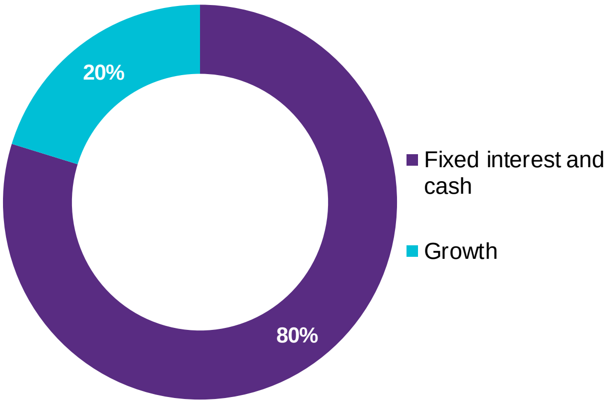
SHAREHOLDERS' FUNDS	1H18 %	FY18 %	1H19 %
Australian equities	10.2	7.6	8.8
International equities	21.0	14.6	14.6
Alternatives	22.0	20.4	24.3
Fixed interest and cash	46.8	57.4	52.3
Total	**100.0**	**100.0**	**100.0**
TECHNICAL RESERVES	**%**	**%**	**%**
Fixed interest and cash	100.0	100.0	100.0
Total	**100.0**	**100.0**	**100.0**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	**%**	**%**	**%**
Australian equities	3.6	3.2	3.7
International equities	7.5	6.2	6.2
Alternatives	7.8	8.6	10.3
Fixed interest and cash	81.1	82.0	79.8
Total	**100.0**	**100.0**	**100.0**

CREDIT QUALITY OF ASSETS

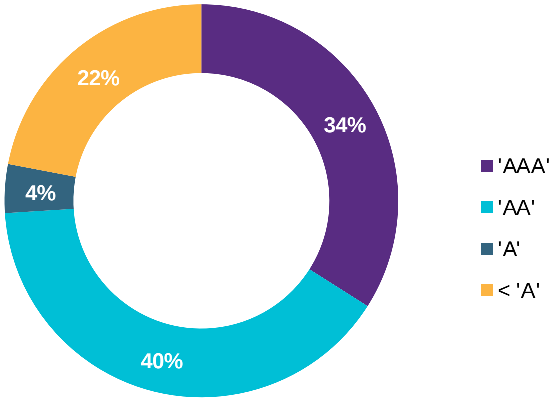
Strong credit quality maintained

The credit quality of IAG's investment book remains strong, with 74% of the fixed interest and cash portfolio rated 'AA' or higher.

GROUP ASSET ALLOCATION – 31 DECEMBER 2018



CREDIT QUALITY – 31 DECEMBER 2018



10. INVESTMENTS

SENSITIVITY ANALYSIS

As at 31 December 2018, the sensitivity of IAG's net profit before tax to market movements in investments was as set out in the table below and includes sensitivities relating to alternative assets. The allocation to alternative assets typically exhibits a lower sensitivity to equity markets and higher exposure to yield-based strategies.

INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 31 DECEMBER 2018	Change in Assumption +1% A$m	-1% A$m
Equity market values:		
Australian equities	4	(4)
International equities	6	(6)
Total equity market sensitivity	**10**	**(10)**
Interest rates:		
Assets backing technical provisions	(111)	117
Assets backing shareholders' funds	(37)	39
Total interest rate sensitivity	**(148)**	**156**

INVESTMENT PERFORMANCE

A solid investment return was achieved on the technical reserves portfolio in 1H19, with related investment income of $102m influenced by:

- Reduced funds under management, primarily as a consequence of the additional quota shares which commenced on 1 January 2018;
- A downwards movement in the yield curve since 30 June 2018. The 3-year government bond yield at 31 December 2018 was 1.85%, compared to 2.06% on 30 June 2018;
- A negative impact of $24m from the widening of credit spreads, compared to a positive effect of $47m from the narrowing of spreads in 1H18; and
- A favourable foreign exchange impact of $3m, 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 $15m, was recorded in 1H18.

Similar average yield to 1H18

After allowance for the factors outlined above, the average yield achieved in 1H19 was similar to that of 1H18. The technical reserves portfolio continues to be aligned with the average weighted duration of the Group's claims liability, which is around two years.

Investment income on shareholders' funds in 1H19 was a loss of $7m, an adverse turnaround of $136m against 1H18 (profit of $129m), embracing:

- Negative returns from equity markets, notably in the second quarter;
- Some mitigation from a portfolio bias towards defensive stocks within international equities; and
- A positive return from alternative investments.

Loss on shareholders' funds reflects weak equity markets

The S&P ASX200 Accumulation Index in Australia delivered a negative return of 6.8% in 1H19 (1H18: +8.4%), while the MSCI World Total Return Index (AUD Hedged) produced a negative return of 8.7% (1H18: +10.0%).

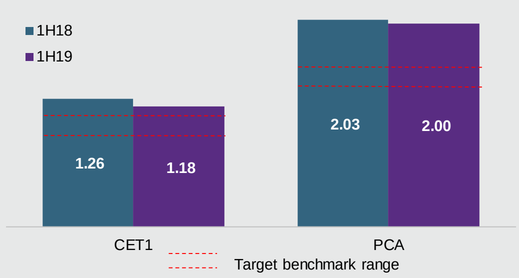
INVESTMENT INCOME	1H18 A$m	2H18 A$m	1H19 A$m
Technical reserves	123	107	102
Shareholders' funds	129	36	(7)
Total investment income	**252**	**143**	**95**

11. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
- CET1 multiple of 1.18 vs. benchmark of 0.9-1.1
- PCA multiple of 2.00 vs. benchmark of 1.4-1.6
- Debt and hybrids 38.4% of total tangible capitalisation – towards upper end of targeted range
- $592m combined capital return and special dividend completed in November 2018
- S&P 'AA-' rating of core operating subsidiaries reaffirmed in January 2019

Regulatory Capital



BALANCE SHEET

	1H18 A$m	FY18 A$m	1H19 A$m
Assets			
Cash and cash equivalents	436	448	431
Investments	11,580	11,007	10,605
Investments in joint ventures and associates	510	557	517
Trade and other receivables	3,845	4,085	3,911
Reinsurance and other recoveries on outstanding claims	5,235	5,422	5,469
Deferred insurance expenses	3,597	3,443	3,605
Goodwill and intangible assets	3,263	3,183	3,173
Assets held for sale	-	655	63
Other assets	990	966	992
Total assets	**29,456**	**29,766**	**28,766**
Liabilities			
Outstanding claims	10,948	10,410	10,352
Unearned premium	6,152	6,217	6,227
Interest bearing liabilities	1,608	1,960	1,976
Trade and other payables	2,845	2,592	2,835
Liabilities held for sale	-	444	27
Other liabilities	1,078	1,202	1,008
Total liabilities	**22,631**	**22,825**	**22,425**
Net assets	**6,825**	**6,941**	**6,341**
Equity			
Equity attributable to holders of ordinary shares	6,598	6,669	6,110
Non-controlling interests	227	272	231
Total equity	**6,825**	**6,941**	**6,341**

11. BALANCE SHEET & CAPITAL

Balance sheet movements include completion of capital management and sale of Thailand effects

IAG's total assets at 31 December 2018 were $28,766m compared to $29,766m at 30 June 2018. The net decrease of $1,000m includes:

- A $402m decrease in investments, including the effects from:
  - Settlement of the capital management initiative in November 2018 ($592m);
  - Payment of the final dividend ($473m) in September 2018;
  - Receipt of proceeds from the sale of the Thailand operations (over $500m), completed at the end of August 2018; and
  - A further quota share-related reduction;
- A $174m decrease in trade and other receivables, associated with lower premiums receivable due to the seasonality of commercial renewals, a reduction in unsettled investment transactions and a decrease in fees and commissions receivable following the sale of Community Broker Network;
- A $162m increase in deferred insurance expenses, reflecting the catastrophe reinsurance cover renewal for calendar 2019; and
- A $592m reduction in assets held for sale, following completion of the Thai transaction.

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 2018 were $22,425m, compared to $22,825m at 30 June 2018. The net decrease of $400m includes:

- A $58m reduction in outstanding claims, reflecting the net effect of prior period reserve releases, further payments in respect of the Canterbury and Kaikoura earthquake events and claims arising from recent peril events including the Sydney hailstorm in December 2018;
- An increase of $243m in trade and other payables, primarily owing to premiums payable on the catastrophe reinsurance cover which was renewed on 1 January 2019;
- A $417m reduction in liabilities held for sale, following completion of the Thai transaction; and
- A $194m decrease in other liabilities, reflecting lower current tax liabilities from the final settlement of the liability relating to the 2018 financial year and higher monthly instalments paid for the 2019 financial year compared to the 1H19 tax expense.

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

IAG shareholders' equity (excluding non-controlling interests) decreased from $6,669m at 30 June 2018 to $6,110m at 31 December 2018, predominantly reflecting the net effect of:

- Retained earnings in 1H19;
- Payment of the 20 cents per share final dividend ($473m) in September 2018; and
- Completion of the capital management initiative ($592m) in November 2018.

11. BALANCE SHEET & CAPITAL

CAPITAL

Capital Adequacy

IAG is strongly capitalised

IAG is strongly capitalised, with regulatory capital of $4.66bn at 31 December 2018. At that date, IAG's Common Equity Tier 1 (CET1) ratio was 1.18 times the Prescribed Capital Amount (PCA), compared to a targeted range of 0.9 to 1.1 times and a regulatory minimum requirement of 0.6 times.

The CET1 ratio has reduced from the 1.26 multiple reported at 30 June 2018, owing to the net effect of:

- Earnings in 1H19;
- Payment of the 20 cents per share final dividend ($473m) in September 2018;
- Completion of the capital management initiative ($592m) in November 2018;
- Further favourable impact from the combined 12.5% quota shares which came into effect from 1 January 2018;
- An increased excess technical provisions position over liabilities; and
- Utilisation of tax losses in New Zealand.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H18 A$m	FY18 A$m	1H19 A$m
Common Equity Tier 1 Capital (CET1)			
Ordinary shares	7,082	7,082	6,617
Reserves	(26)	(4)	39
Retained earnings	(428)	(382)	(497)
Technical provisions in excess of liabilities	452	473	505
Minority interests	227	272	231
Less: Deductions	(4,207)	(4,327)	(4,153)
Total Common Equity Tier 1 Capital	**3,100**	**3,114**	**2,742**
Additional Tier 1 Capital			
Hybrid equities	679	624	624
Total Tier 1 Capital	**3,779**	**3,738**	**3,366**
Tier 2 Capital			
Subordinated term notes	943	1,280	1,293
Total Tier 2 Capital	**943**	**1,280**	**1,293**
Total Regulatory Capital	**4,722**	**5,018**	**4,659**
Prescribed Capital Amount (PCA)			
Insurance risk charge	1,106	1,055	1,002
Insurance concentration risk charge	169	169	169
Diversified asset risk charge	1,620	1,489	1,358
Aggregation benefit	(642)	(605)	(566)
Operational risk charge	355	360	365
Total Prescribed Capital Amount	**2,608**	**2,468**	**2,328**
PCA multiple	**1.81**	**2.03**	**2.00**
CET1 multiple	**1.19**	**1.26**	**1.18**

11. BALANCE SHEET & CAPITAL

Unutilised tax losses stemming from the Canterbury earthquakes in New Zealand in FY11 stood at approximately $370m at 31 December 2018, and are disallowed for regulatory capital calculation purposes. During 1H19, related tax losses on the balance sheet reduced by around $30m, comprising roughly $50m of utilisation offset by a foreign exchange translation effect.

Allowing for the interim dividend which will be paid in March 2019, the CET1 ratio at 31 December 2018 would reduce to 1.06.

At 31 December 2018 IAG's PCA ratio was 2.00, compared to a targeted range of 1.4 to 1.6 times. Since 30 June 2018, notable movements within IAG's PCA comprise:

- A $53m reduction in the insurance risk charge from a combination of prior period reserve releases, the sale of the Thailand operations, continued run-on of the 12.5% quota shares and further claim payments in respect of prior year peril events;
- A $131m reduction in the diversified asset risk charge, owing to a net decrease in investments held and the sale of the Thailand operations; and
- A $39m reduction in aggregation benefit, broadly in line with the reduction across both the asset and liability risk charges.

PCA movements include influence of further quota share effects and sale of Thailand operations

Interest Bearing Liabilities

IAG's interest bearing liabilities stood at $1,976m at 31 December 2018, compared to $1,960m at 30 June 2018. The small net movement in the period largely reflects foreign exchange translation effects.

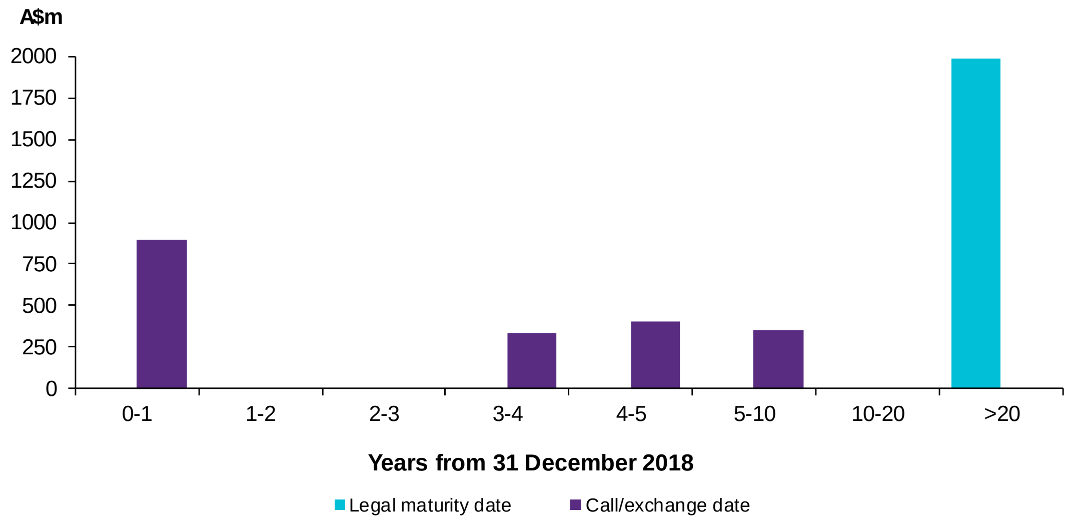
INTEREST BEARING LIABILITIES	1H18 A$m	FY18 A$m	1H19 A$m
Subordinated debt	668	1,020	1,033
Reset Exchangeable Securities	550	550	550
Capital Notes	404	404	404
Capitalised transaction costs/other	(14)	(14)	(11)
Total interest bearing liabilities	**1,608**	**1,960**	**1,976**

GROUP DEBT & HYBRID CAPITAL	Principal amount $m	Principal amount A$m	Yield (net of swaps) %	Rate	First Call or Exchange date	S&P rating
Subordinated term notes (issued Mar-14)[1]	A$350	350	4.82%	Variable	Mar-19	'A-'
Subordinated term notes (issued Mar-18)[2]	A$350	350	4.12%	Variable	Jun-24	'BBB'
Subordinated fixed rate notes	NZ$350	333	5.15%	Fixed	Jun-22	'BBB'
Total Debt		**1,033**				
Reset Exchangeable Securities (IANG)[3]	A$550	550	4.21%	Variable	Dec-19	'BBB+'
Capital Notes (IAGPD)[4]	A$404	404	4.70%	Variable	Jun-23	'N/R'

[1] *Stated yield based on margin of BBSW + 2.80%*
[2] *Stated yield based on margin of BBSW + 2.10%*
[3] *The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.*
[4] *The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.*

11. BALANCE SHEET & CAPITAL

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. IAG targets the following ranges:

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

Capital mix within targeted ranges

CAPITAL MIX	1H18 A$m	FY18 A$m	1H19 A$m
Shareholder equity	6,825	6,941	6,341
Intangibles and goodwill	(3,263)	(3,183)	(3,173)
Tangible shareholder equity	**3,562**	**3,758**	**3,168**
Interest bearing liabilities	1,608	1,960	1,976
Total tangible capitalisation	**5,170**	**5,718**	**5,144**
Debt to total tangible capitalisation	**31.1%**	**34.3%**	**38.4%**

At 31 December 2018, debt and hybrids represented 38.4% of total tangible capitalisation, towards the upper end of IAG's targeted range. The increase since FY18 reflects the impact of the equity capital management initiative conducted in November 2018.

IAG intends to redeem $350m of subordinated notes on their first issuer call date of 19 March 2019. This will be financed via the funds raised through the similar-sized subordinated note issue in March 2018.

Intended subordinated note redemption and potential new Tier 2 issue in 2H19

In addition, the $550m Reset Exchangeable Securities (RES) issue has a reset date in December 2019, after which it ceases to be eligible for regulatory capital purposes. IAG may seek to issue a new Tier 2 instrument prior to 30 June 2019, subject to market conditions, to assist in refinancing the RES.

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.

In August 2018, IAG announced a $592m capital management initiative of 25 cents per ordinary share which was completed on 26 November 2018 following shareholder approval. It comprised:

- A capital return of 19.5 cents;
- A fully franked special dividend of 5.5 cents; and
- A share consolidation, equal and proportionate to the capital return, which reduced IAG's ordinary shares on issue by approximately 2.4%.

The capital management initiative acknowledged IAG's surplus capital position to regulatory benchmarks, including cumulative quota share effects, as well as the absence of significant operational demands on its capital and the announced sale of the Thailand business.

Combined capital return and special dividend of $592m completed in November 2018

Credit Ratings

On 18 January 2019, 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 (all ownership percentages are as at 31 December 2018).

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 Insurance Australia Limited (IAL), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with IAL.
3. 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.
4. IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

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 Insurance 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.

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)

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
- SGIO

Short tail insurance

- Business packages
- Farm and crop
- Commercial property
- Construction and engineering
- Motorcycle
- Commercial motor and fleet motor
- Marine (through NTI)

Long tail insurance

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

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 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
- 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 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.

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 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, business 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.

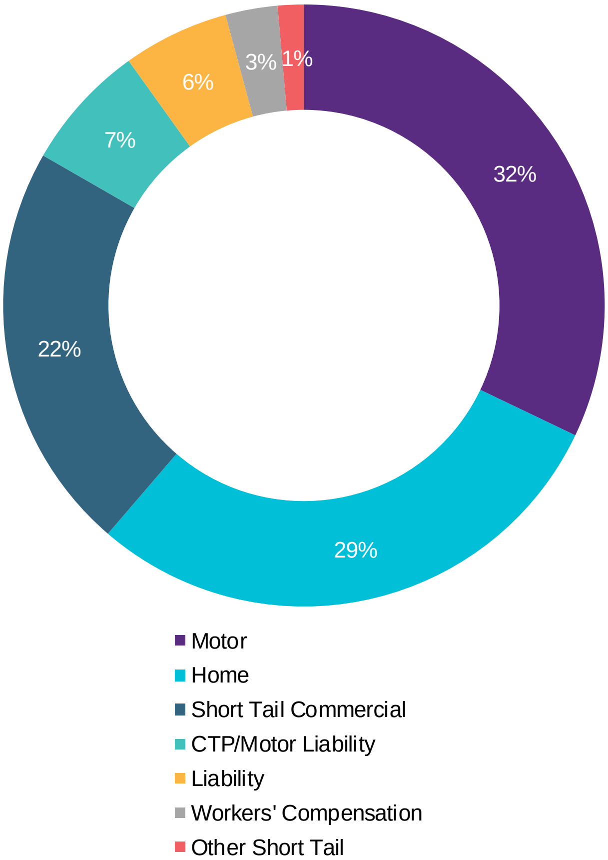
STATE BANK OF INDIA

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 22,000 branches across all states of India.

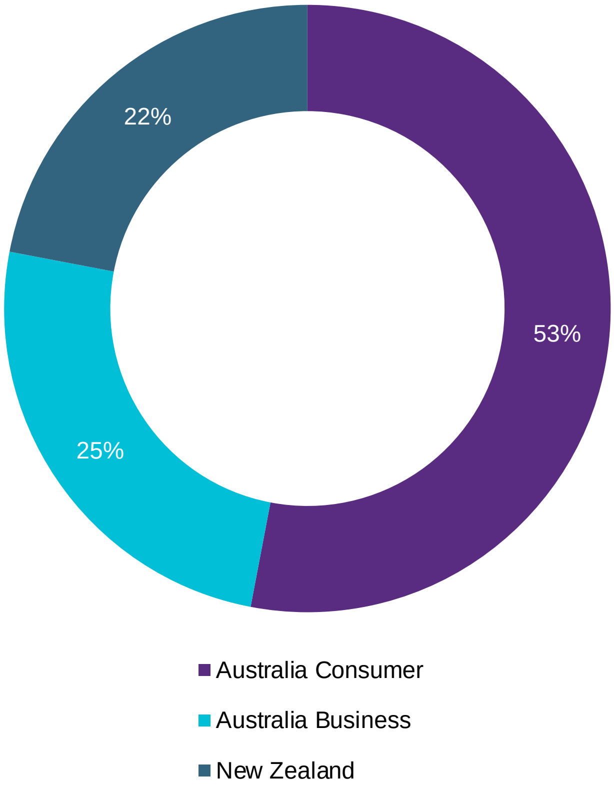
SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. SBI General commenced operations in 2010 and is building a portfolio in the corporate, retail and SME markets across India. SBI General has an exclusive corporate agency agreement with SBI Group for general insurance business. SBI owns 70% of SBI General and IAG 26%.

APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

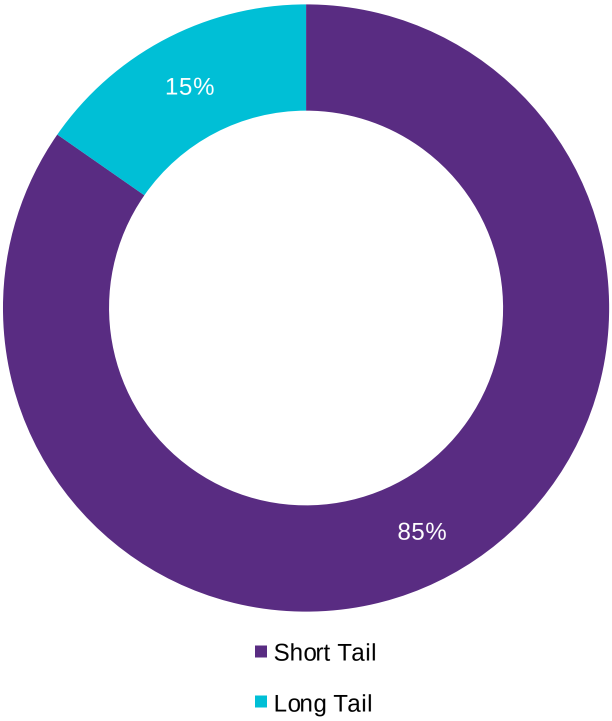
IAG GROUP GWP BY PRODUCT — 1H19



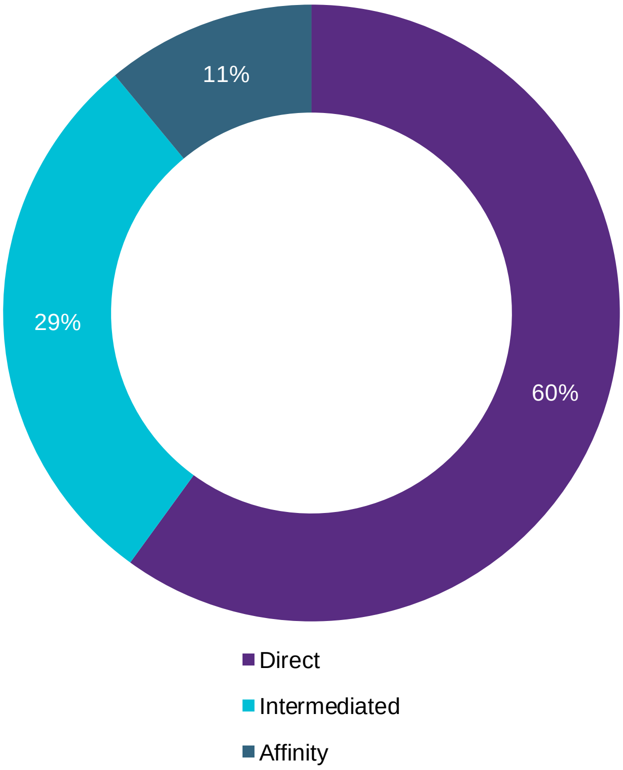
IAG GROUP GWP BY BUSINESS — 1H19



IAG GROUP GWP BY TAIL — 1H19



IAG GROUP GWP BY CHANNEL — 1H19



APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2018 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.

10-JUL-18 **GROUP GENERAL COUNSEL LEAVES IAG**

IAG announced that its Group General Counsel and Company Secretary, Chris Bertuch, had decided to leave the company effective 30 September 2018.

11-JUL-18 **RECLASSIFICATION OF RESULTS TO REFLECT DISCONTINUED OPERATIONS**

IAG provided details of the reclassification of its financial results for FY17 and 1H18, as a result of the sale agreements covering its consolidated operations in Thailand, Indonesia and Vietnam and their treatment as discontinued operations.

15-AUG-18 **IAG ANNOUNCES FY18 RESULTS**

IAG announced its FY18 results which contained an improved underlying performance. A reported insurance margin of 18.3% slightly exceeded updated guidance, assisted by a favourable net perils experience and higher than expected reserve releases, while like-for-like GWP growth of over 4% was largely rate-driven. A 20 cent final dividend contributed to a 3% increase in full year payout, which represented 77.9% of cash earnings. A $592m capital management initiative was announced, subject to shareholder approval. Initial FY19 guidance reflected further expected improvement in underlying performance.

7-SEP-18 **DIVIDEND REINVESTMENT PLAN PRICING**

IAG advised that ordinary shares allocated under the Dividend Reinvestment Plan for the dividend payable on 27 September 2018 would be priced at $7.596 per share.

10-SEP-18 **NOTICE OF ANNUAL GENERAL MEETING**

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

18-OCT-18 **UPDATE TO EX-DATE FOR CAPITAL MANAGEMENT INITIATIVE**

IAG advised of a slight revision to the ex-date for the special dividend and capital return subject to shareholder approval.

26-OCT-18 **ANNUAL GENERAL MEETING (AGM)**

The Chairman's AGM address and CEO's presentation were lodged, together with the AGM poll results.

16-NOV-18 **DIVIDEND REINVESTMENT PLAN PRICING FOR THE SPECIAL DIVIDEND**

IAG advised that ordinary shares allocated under the Dividend Reinvestment Plan for the special dividend payable on 26 November 2018 would be priced at $7.1029 per share.

26-NOV-18 **COMPLETION OF CAPITAL MANAGEMENT INITIATIVE**

IAG advised the capital management initiative approved by shareholders at IAG's AGM completes today. A total payment of $591,765,771.45 comprises a capital return of 19.5 cents per ordinary share and a fully franked special dividend of 5.5 cents per ordinary share. The share register has been updated to reflect an associated share consolidation, which took effect on 5 November 2018, which was effected by IAG consolidating every ordinary share into 0.9760 ordinary shares. The total number of ordinary shares now on issue is 2,311,046,583 ordinary shares.

APPENDIX E KEY ASX RELEASES

17-DEC-18 2019 FINANCIAL CALENDAR

IAG issued its financial calendar for 2019.

21-DEC-18 PERILS UPDATE FOLLOWING SYDNEY HAILSTORM

IAG provided an update on financial year-to-date net natural peril claim costs, following the severe storms that impacted the Sydney region on 20 December. IAG confirmed the severity of related hail damage indicated the pre-tax cost of the Sydney event would be in line with IAG's maximum first event retention, of $169m post-quota share. IAG estimated FY19 year-to-date net natural peril claim costs of approximately $410-430m.

3-JAN-19 IAG FINALISES 2019 CATASTROPHE COVER

IAG advised it had finalised its catastrophe reinsurance program for the 2019 calendar year, with construction similar to prior years and up to $9bn of gross reinsurance protection. This has been placed to the extent of 67.5% to reflect a cumulative whole-of-account quota share position of 32.5%. The combination of all catastrophe covers in place at 1 January 2019 results in maximum first event retentions (post-quota share) of $169m for Australia and NZ$169m for New Zealand.

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.
CLAIMS HANDLING EXPENSES	Those administration costs incurred in the investigation, assessment and settlement of a claim.
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.

APPENDIX F GLOSSARY

DRP	Dividend Reinvestment Plan, where shareholders receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
EPS	Earnings per share.
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.
FIRE SERVICE LEVIES	Fire service 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 these 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.
FRANKING CREDITS	Also known as an imputation credit, a franking credit is a type of tax credit that allows Australian companies to pass on tax paid to shareholders. The benefit to a shareholder is that franking credits can be used to reduce income tax paid on dividends received. IAG also receives franking credits from its Australian equity investment portfolio.
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.

APPENDIX F GLOSSARY

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.
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.

APPENDIX F GLOSSARY

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.
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-sized 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.
TEPLA	The Excess Profit or Loss Adjustment (TEPLA) is the adjustment required to ensure profit recognition under the new CTP scheme in NSW is in line with the legislated capped level. In accordance with accounting requirements, TEPLA is treated as part of levies (alongside fire service levies), within underwriting expenses.
TREASURY SHARES	Ordinary IAG shares held by the company. These are primarily for the purposes of meeting share-based remuneration plan obligations.
TSR	Total shareholder return.
UNDERLYING MARGIN	IAG defines underlying margin as the reported insurance margin adjusted for: • Net natural peril claim costs less related allowance; • Reserve releases in excess of 1% of NEP; and • Credit spread movements. 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.

APPENDIX F GLOSSARY

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**): 2,311,046,583 on issue at 31 December 2018
- Reset Exchangeable Securities (**IANG**): 5,500,000 on issue at 31 December 2018
- Capital Notes (**IAGPD**): 4,041,265 on issue at 31 December 2018

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ$350m outstanding at 31 December 2018

KEY DATES

Interim dividend – ordinary shares	
• Ex-dividend date	12 February 2019
• Record date	13 February 2019
• DRP record date	14 February 2019
• Payment date	20 March 2019
Payment date for IANG, IAGPD and IAGFB quarterly distributions	15 March 2019
Payment date for IANG, IAGPD and IAGFB quarterly distributions	17 June 2019
Announcement of full year results to 30 June 2019	8 August 2019*
Final dividend – ordinary shares	
• Ex-dividend date	19 August 2019*
• Record date	20 August 2019*
• DRP record date	21 August 2019*
• Payment date	30 September 2019*
Payment date for IANG, IAGPD and IAGFB quarterly distributions	16 September 2019
Annual General Meeting	25 October 2019
Payment date for IANG, IAGPD and IAGFB quarterly distributions	16 December 2019
Announcement of half year results to 31 December 2019	12 February 2020*

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

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