Financial results

Half year ended **31 December 2018**

Peter Harmer
Managing Director and
Chief Executive Officer

Nick Hawkins
Chief Financial Officer

6 February 2019

Overview

1H19 highlights

Improved underlying performance, FY19 guidance reaffirmed

Underlying improvement in line with expectations

- GWP growth of 4.1% largely rate-driven
- Underlying margin of 16.2%: +70bps vs. 1H18, ex-quota share
- Sound performance from Australia
- Strong performance in New Zealand

Optimisation program benefits emerging broadly as planned

- ~$40m net benefit in 1H19, ~$100m expected in FY19 vs. FY18
- Some offset from increased regulatory and compliance costs

Lower reported margin

- Sydney hailstorm impact
- Lower reserve releases and unfavourable credit spread movement

Reduced Asian footprint

- Sale of Thailand operations completed: >$200m net profit recognised
- Indonesia and Vietnam divestments expected to complete by end of FY19
- Options continue to be assessed for India and Malaysia JV interests

Fully franked 1H19 dividend of 12 cents

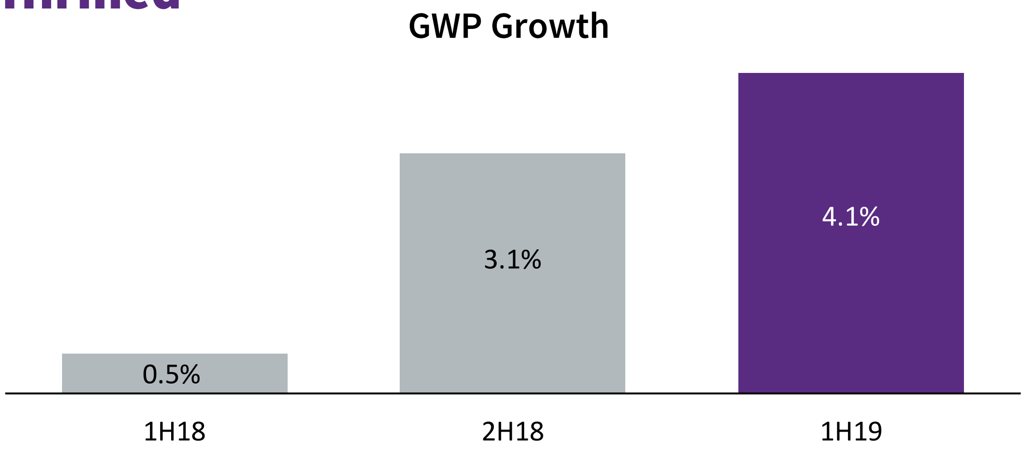
- Nearly 87% of cash earnings

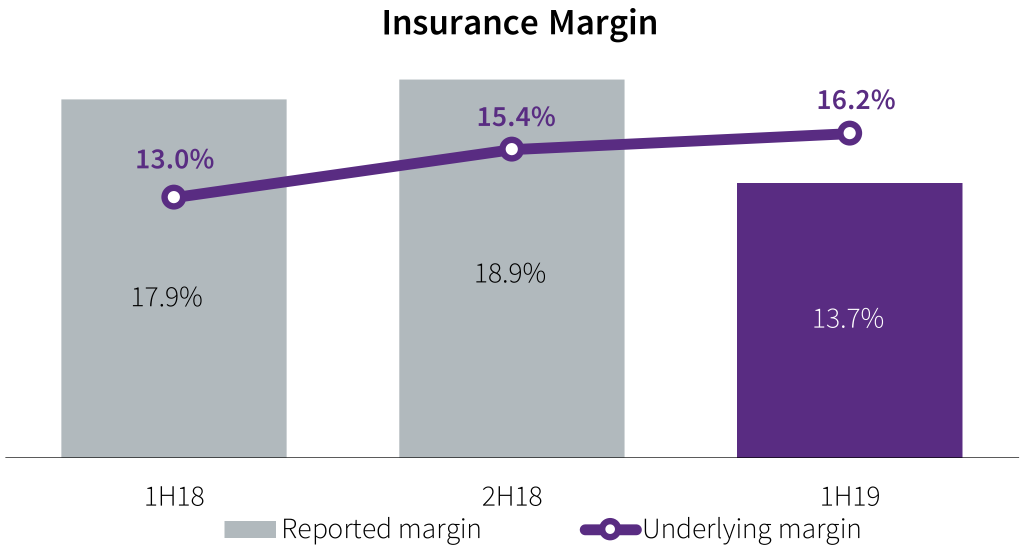
Strong capital position

- CET1 at upper end of target range, post dividend
- Completed $592m capital management initiative

FY19 guidance reaffirmed

- GWP growth 2-4%
- Reported margin 16-18% - key assumptions unchanged





Strategy

Optimise our core insurance business while creating future growth options

Three
strategic priorities

Eleven
capabilities

Operational scorecard

Range of activities linked to three strategic priorities

	1H19 activities	2H19 priorities
Customer	• Enhancement of customer digital experiences, including redesign of motor and home claim processes • Launched trial loyalty program rewarding customers for being proactive about safety in the home and in the local community • Developed real-time, interactive customer insights platform, providing IAG staff with a deeper customer understanding • Placed the first tranche of material data workloads onto the cloud	• Make customer decisions more rapidly, efficiently and flexibly by continuing to move IAG's data to the cloud • Give our customers access to smarter insights through question and answer chatbots and automated decisions embedded across the organisation • Expand our digital capabilities and improve the performance and experience in our mobile channels by continuing to invest in leading edge technologies • Build and test new and innovative products for customers
Simplification	• Continued claims component of systems consolidation across Australia and New Zealand • Completed transition of targeted activities to operational partners	• Consolidation of core technology platforms and decommissioning of redundant systems • Continue review and delivery of optimised repair model • Commence detailed scoping of policy administration systems consolidation
Agility	• Continued embedment of Leading@IAG program linking purpose and strategy to individual accountability and performance • Continued deployment of Future ME program, empowering employees to build their knowledge and preparedness to participate in the workforce of the future • Further investments through Firemark Labs and partnerships to launch products and solutions that deliver on IAG's purpose	• Further strengthen ways of working, leadership and people frameworks to create clarity, improve productivity and evolve skills that underpin future success • Continue to develop partnerships, products and shared value programs that drive safer communities and deliver on IAG's purpose: **We make your world a safer place**

Financials

Financial summary

Cash ROE of 9.8%

(excludes profit on sale of Thailand operations)

	1H18	1H19	Change
GWP ($m)	5,649	5,881	4.1% ▲
Insurance profit ($m)	745	496	33.4% ▼
Underlying insurance margin (%)	13.0	16.2	320bps ▲
Reported insurance margin (%)	17.9	13.7	420bps ▼
Shareholders' funds income ($m)	129	(7)	nm ▼
Net profit after tax ($m)	551	500	9.3% ▼
Diluted cash EPS (cps)	25.73	13.40	47.9% ▼
Dividend (cps)	14.0	12.0	14.3% ▼
Cash ROE (%)	19.1	9.8	930bps ▼
CET1 multiple	1.19	1.18	1bp ▼

GWP growth

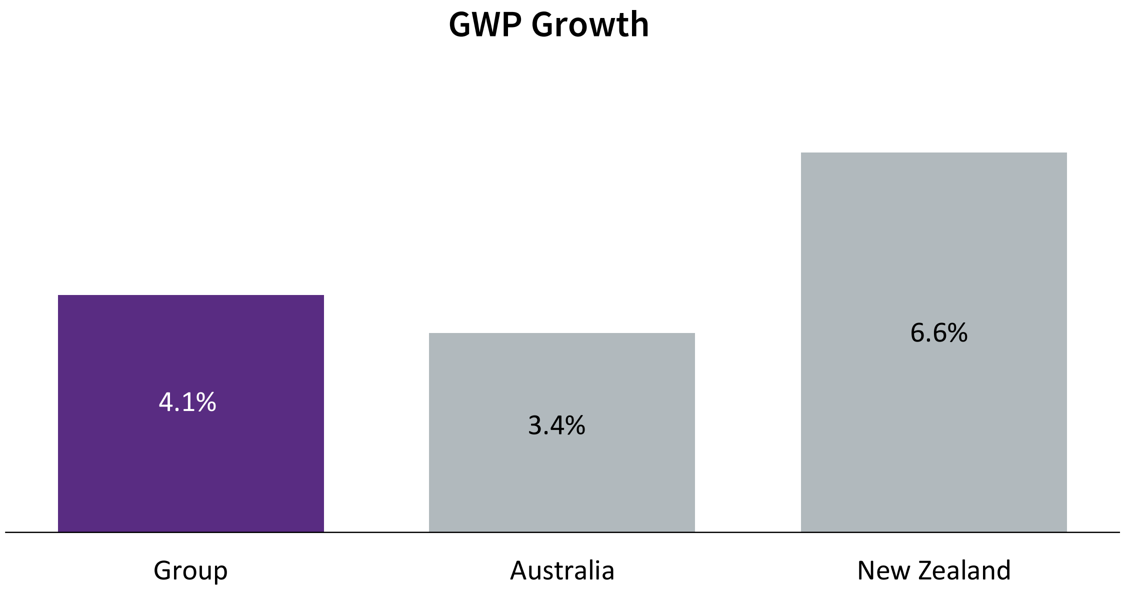
Largely rate-driven

GWP growth of 4.1%

- Short tail personal line rate increases at least matching claims inflation
- Ongoing growth in average commercial rates – reduced momentum in New Zealand
- Lower NSW CTP rates largely offset by higher volumes
- Strong growth in workers' compensation, fuelled by higher wages in Western Australia
- Relatively flat overall volumes
- Slight benefit from strengthening NZ$
- Minor reduction from exiting smaller business areas

FY19 GWP growth guidance of 2-4% maintained

- Growth at slightly more subdued pace in 2H19
  - Further rate increases across short tail classes
  - Modest volume growth in motor
  - Further decline in commercial volumes – ongoing remediation activity
  - Lower workers' compensation growth
  - Planned NSW CTP rate cuts



Insurance margin

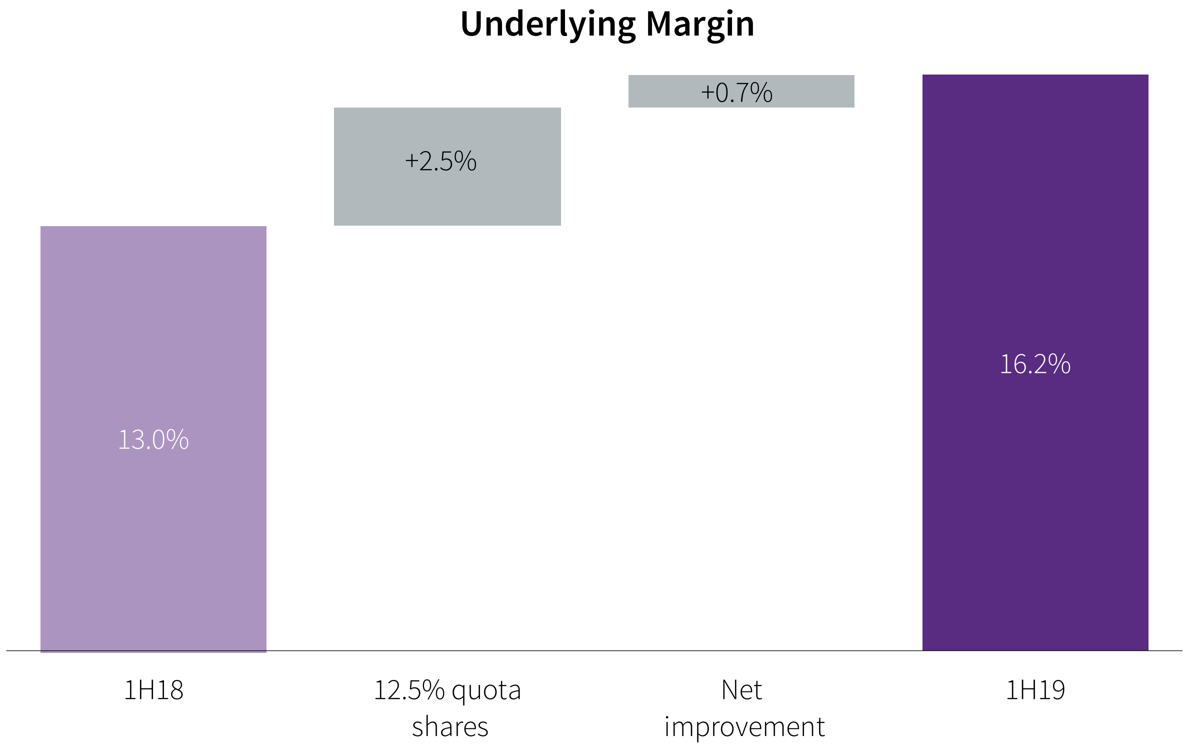
Underlying margin improvement, as reported margin bears increased net peril costs

Higher underlying margin of 16.2%

- ~70bps improvement vs. 1H18, ex-quota share
- 12.5% quota share effect (~250bps)
- Alleviation of claim cost pressures as rates at least match inflation
- Earn-through of higher commercial rates
- Lower large commercial property losses, at more normal levels
- Emerging benefits of optimisation program
- Lower NSW CTP earnings under capped profitability of new scheme
- Absorption of increased regulatory and compliance costs

Lower reported margin of 13.7%

- Adverse movement vs. 1H18 of over 700bps from combination of:
  - Perils outcome in excess of allowance, vs. favourable result in 1H18
  - Lower prior period reserve releases (2.3% of NEP)
  - Negative swing of >$70m from widening of credit spreads
- Partially offset by increased quota share effect
- FY19 reported margin guidance of 16-18% maintained, along with key associated assumptions



Natural perils

FY19 perils assumption retained – $101m of stop-loss cover available

1H19 net perils $110m above allowance

- $414m net cost in line with $410-430m range indicated in December
- Significant contribution from Sydney hailstorm – $162m after minor claim against 2018 aggregate protection
- Benign conditions in New Zealand
- Contrast to 1H18 perils outcome ($77m below allowance) where ~$120m of aggregate protection used

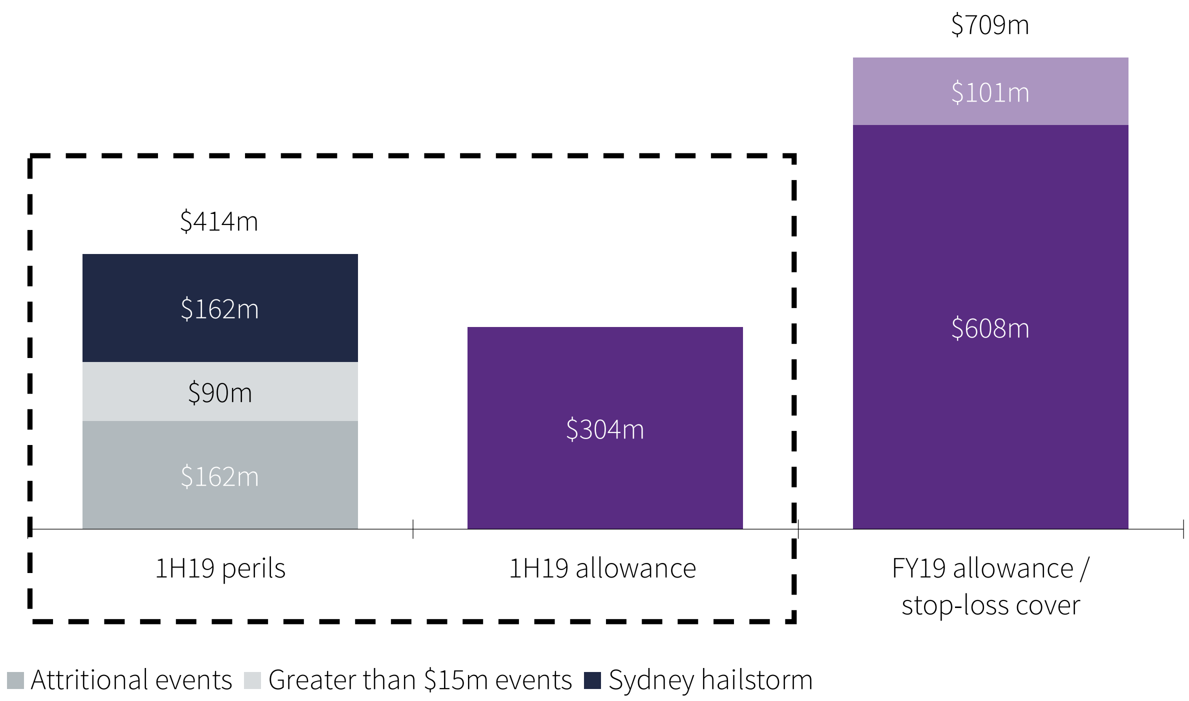
FY19 net perils assumption retained

- In line with $608m FY19 allowance
- Takes into account $101m xs $608m stop-loss protection available in 2H19

Calendar 2019 catastrophe renewal

- Similar structure to prior years
- Increased gross protection of $9bn – added comfort above modelled exposures
- Placed to 67.5% to reflect quota shares
- Relatively flat reinsurance rates experienced
- MER of $169m at 1 January 2019

Natural perils vs allowance



Reserve releases

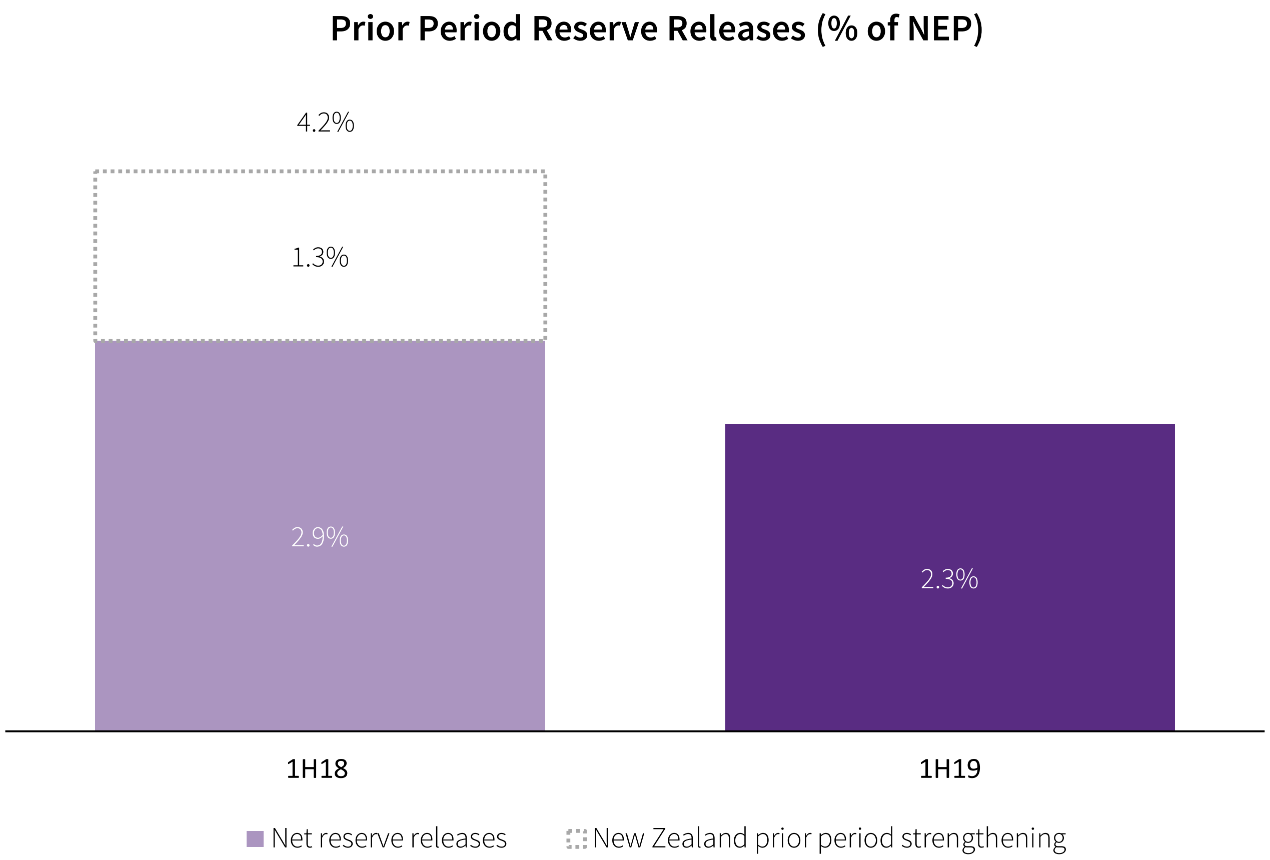
Beginning to trend down

Lower prior period reserve release contribution

- Near-$40m net reduction vs. 1H18
- Still above 2% of NEP
- Absence of 1H18 strengthening in New Zealand
- Relatively benign inflationary conditions persist
- Increased quota share entitlements
- Primarily sourced from CTP
- Long tail Business releases in Australia offset by adverse storm development

FY19 reserve release assumption retained

- Around 2% of NEP



Expenses

Optimisation benefits emerging, some offset from increased regulatory and compliance costs

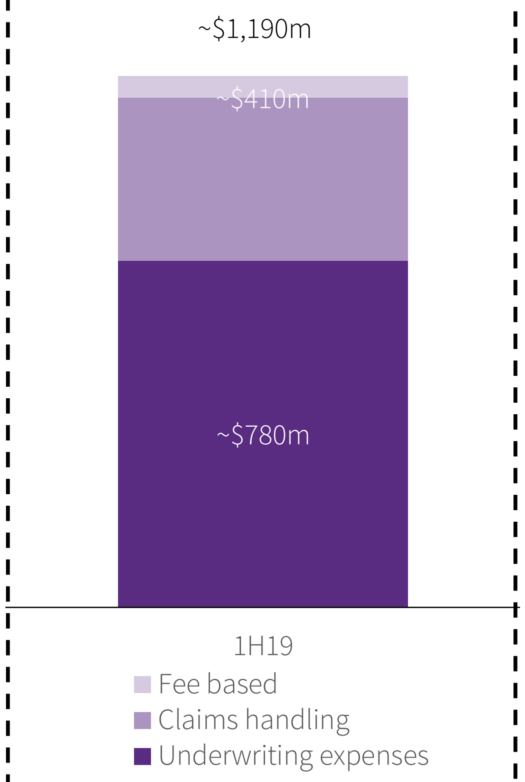
Optimisation program tracking to plan

- ~$40m net benefit in 1H19 gross costs (~$80m annualised)
- Spread across underwriting, claims and fee income lines
- Bulk within insurance profit
- On track to achieve ~$100m pre-tax benefit in FY19 vs. FY18

Some offset from increased regulatory and compliance costs

- ~$30m uplift in annual regulatory and compliance costs – ~$20m increase in FY19 expected (vs. FY18)
- Includes Royal Commission and APRA governance review
- Expected permanent increase

1H19 Gross Operating Costs



Annualised Gross Operating Costs

Australia

Sound Consumer returns, further Business improvement

GWP growth of 3.4%

- Rate-driven growth of 4-5% in short tail personal lines
- Slightly lower CTP GWP – lower rate and refund effects offset by volume growth in NSW
- Business GWP growth of 4.4%
  - Average positive rate momentum of ~6%
  - Nearly 20% increase in workers' compensation GWP
  - Lower volumes

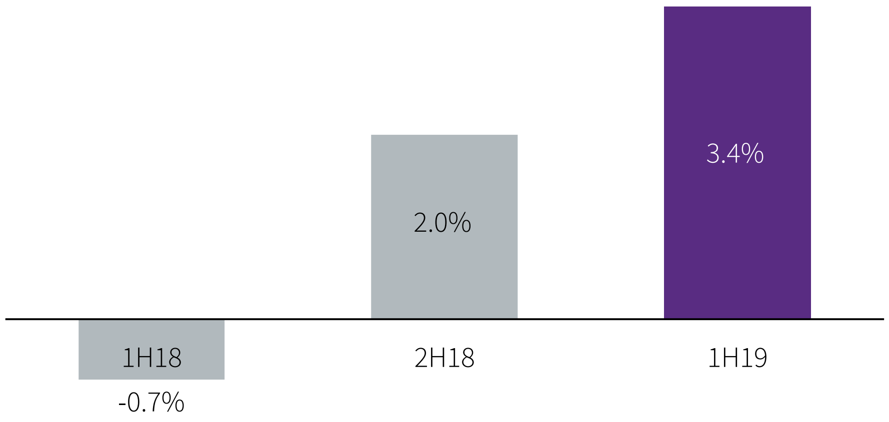
Higher underlying margin of 14.8%

- Improvement of nearly 100bps, ex-quota share
- Increased Consumer margin
  - Higher rates addressing short tail claims inflation
  - Lower NSW CTP profitability under capped scheme
- Continued improvement in Business
  - Cumulative rate increase impact
  - Lower large losses
- Lower reported margin of 10.7% – adverse perils effect movement of ~700bps

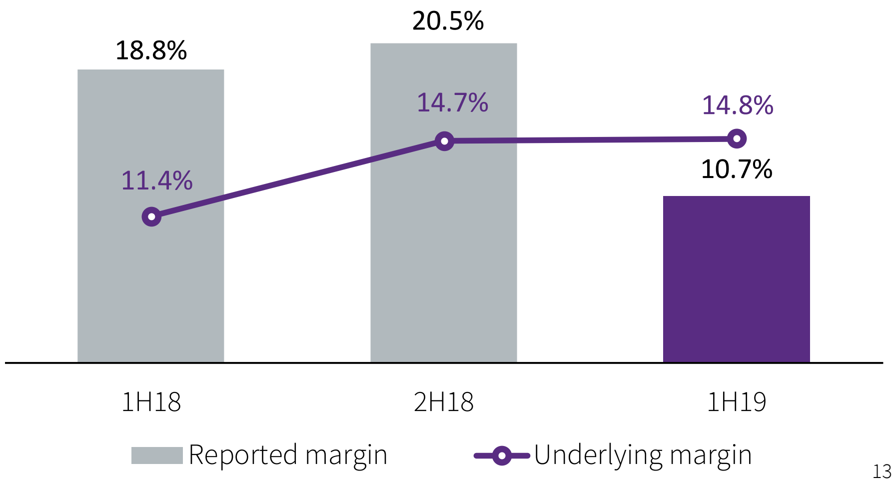
Sound performance expected in 2H19

- Ongoing GWP growth, at a lower pace than 1H19
  - Predominantly rate
  - Lower commercial volumes, post-remediation
  - Planned reduction in NSW CTP rates
- Higher underlying margin from mix of:
  - Optimisation benefits
  - Improved Business margin
  - Lower NSW CTP profitability

Australia – GWP Growth



Australia – Insurance Margin



New Zealand

Strong performance continues

NZ$ GWP growth of 5.5% in 1H19

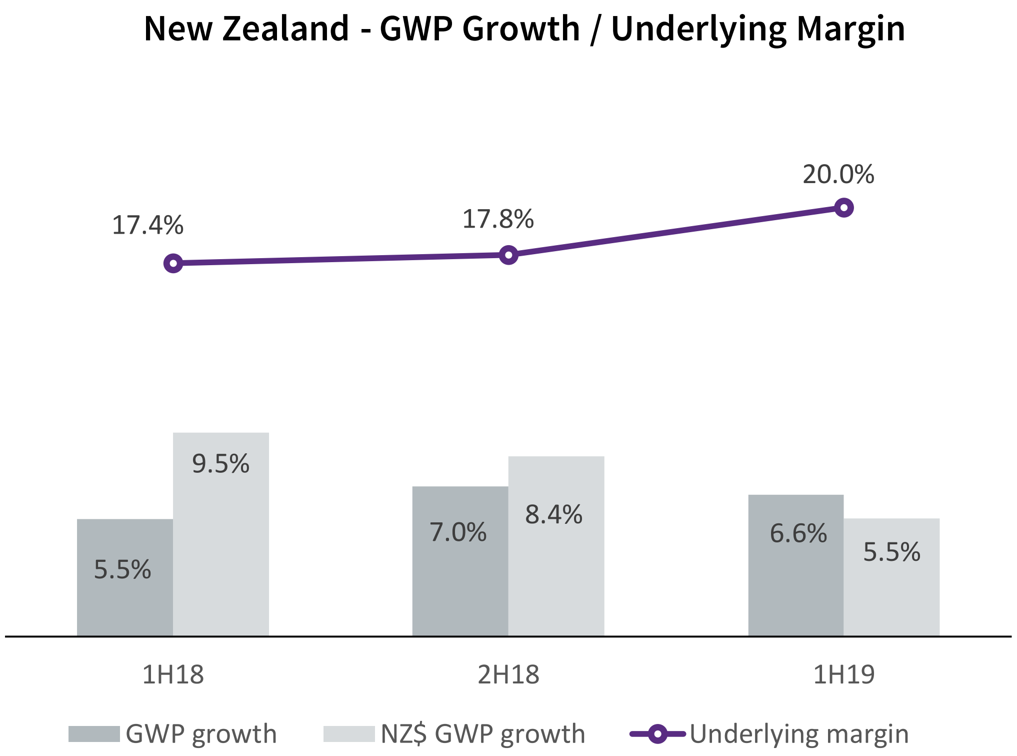
- Largely rate-driven, at lower pace than FY18
- Consumer growth of ~6% – led by AMI brand in private motor and home
- Business growth of over 5% – higher commercial rates partially offset by lower volumes
- Favourable FX translation effect >100bps – reported GWP growth of 6.6%

Higher 1H19 underlying margin

- Earn-through of rate increases
- Lower large claim experience
- Improved reported margin of 24.9%
  - Benign natural perils
  - Absence of prior period strengthening seen in 1H18
- Earthquake reserving unchanged

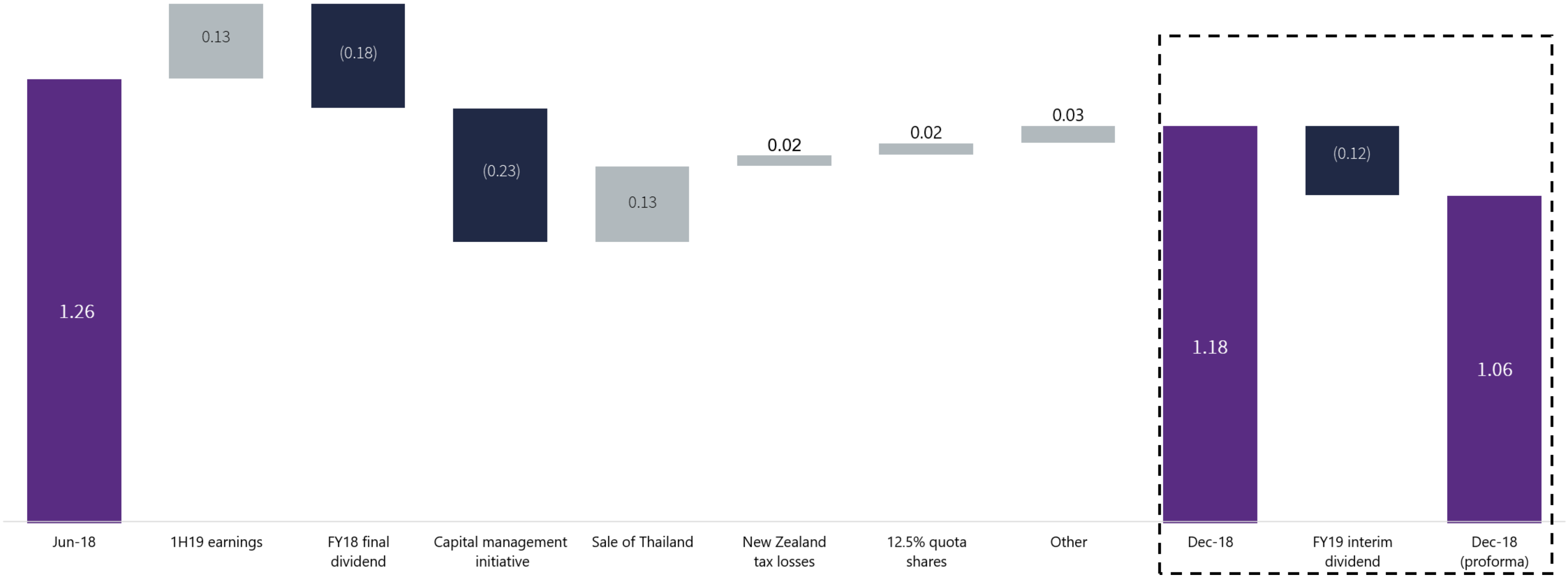
Strong performance expected in 2H19

- Solid GWP growth, with further easing of rate increases
- Broadly similar underlying margin to 1H19



Capital

Strong capital position



Outlook

FY19 outlook

Guidance measures reaffirmed

FY19 guidance measures

GWP growth
2–4%

Reported insurance margin
16–18%

Underlying assumptions

1 Net losses from natural perils of $608m, in line with allowance

2 Reserve releases of around 2%

3 No material movement in foreign exchange rates or investment markets in 2H19

GWP growth guidance of 2–4%

- Further rate increases anticipated across short tail personal and commercial classes
- Modest expected volume effect – personal lines growth (notably motor) offset by decline in commercial (further remediation activity)
- Slightly more subdued growth in 2H19: planned reduction in NSW CTP rates, strong 1H19 growth in workers' compensation GWP unlikely to be repeated

Reported insurance margin guidance of 16–18%

- Improved underlying performance, including pre-tax benefit of ~$100m from optimisation program activities
- Maintained net natural perils prediction – allows for presence of $101m of stop-loss reinsurance protection immediately above $608m allowance
- Reserve release expectation of 'around 2%' assumes continuation of benign inflationary environment
- Absorption of expected ~$20m increase in regulatory and compliance costs (vs. FY18)

Our value proposition

Delivering strong shareholder returns

Investment case

- Leading player with scale advantage in Australia and New Zealand (low single digit growth)
- Digitally-enabled insurer that is customer-led and data-driven
- Innovation in capital management
- Improved efficiencies

Value drivers

- **Customer**
- **Simplification**
- **Agility**

Shareholder value

Through-the-cycle targets

- Cash ROE 1.5x WACC
- High dividend (60-80% of cash earnings payout)
- Top quartile TSR
- ~10% compound EPS growth

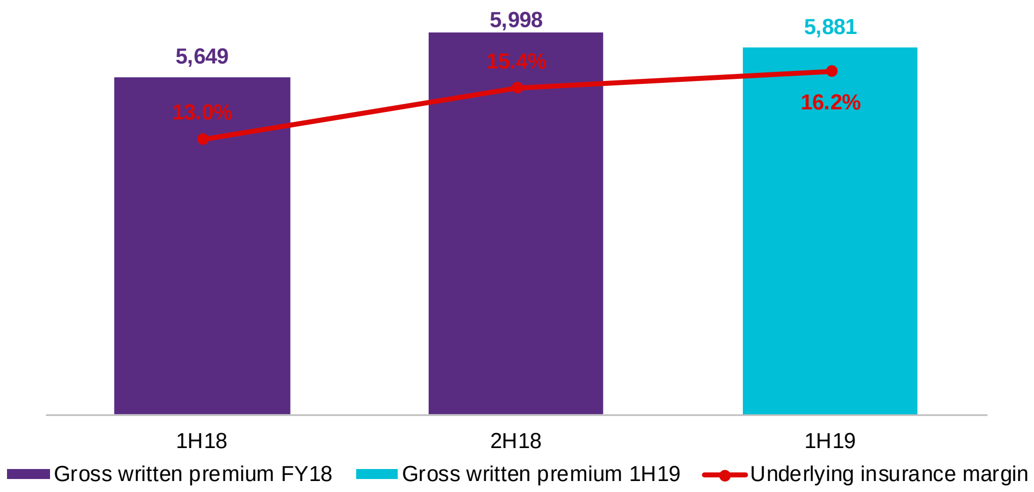
Australia

New Zealand

Appendix – Group results

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**

GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



Appendix – Group ratios and key metrics

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

Appendix – divisional performance

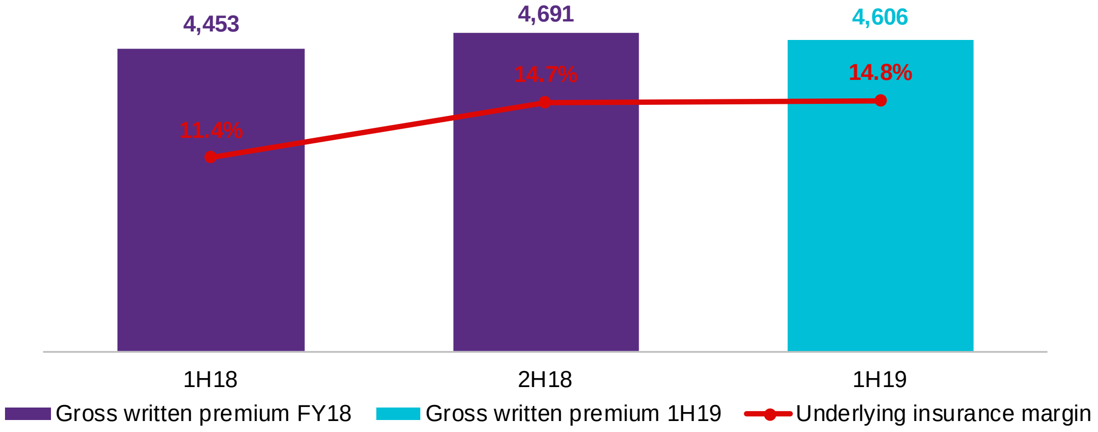
	1H18				1H19			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
DIVISION	A$m	%	%	%	A$m	%	%	%
Australia	4,453	(0.7)	18.8	11.4	4,606	3.4	10.7	14.8
Consumer	*3,052*	*(0.3)*	*23.0*	*13.9*	*3,143*	*3.0*	*13.2*	*17.3*
Business	*1,401*	*(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**

Appendix – Australia

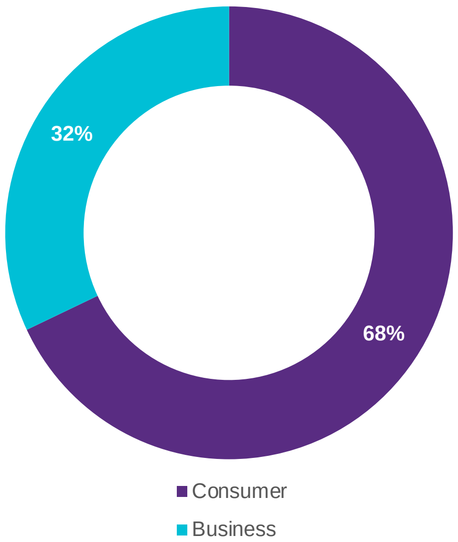
AUSTRALIA RESULTS	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**4,453**	**4,691**	**4,606**
Gross earned premium	4,612	4,519	4,698
Reinsurance expense	(1,285)	(1,762)	(1,864)
Net earned premium	**3,327**	**2,757**	**2,834**
Net claims expense	(1,995)	(1,636)	(1,943)
Commission expense	(291)	(238)	(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%

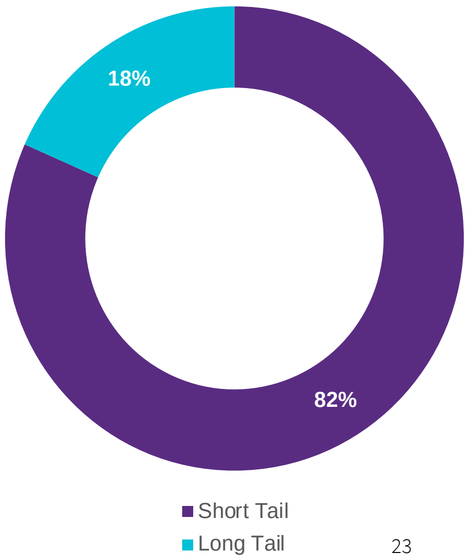
GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



1H19 GWP BY SEGMENT



1H19 GWP BY TAIL

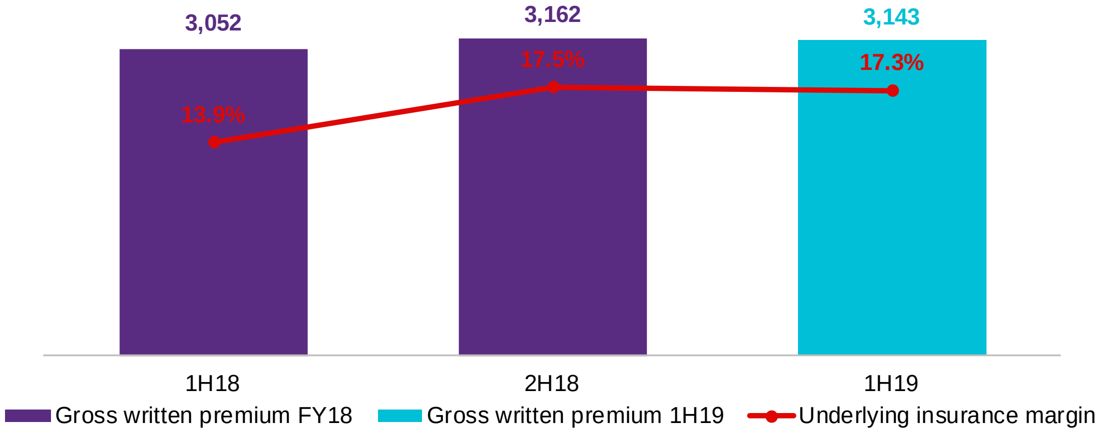


Appendix – Australia Consumer

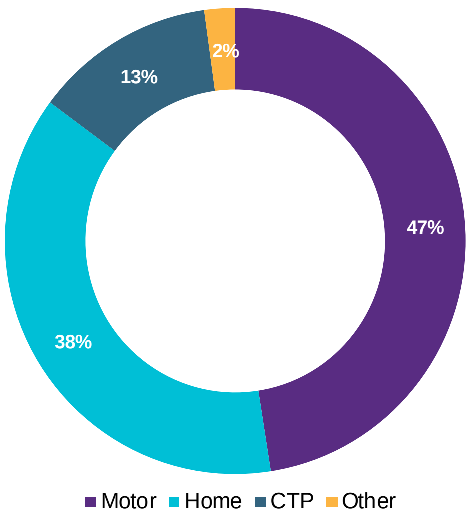
AUSTRALIA CONSUMER RESULTS	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**3,052**	**3,162**	**3,143**
Gross earned premium	3,092	3,035	3,174
Reinsurance expense	(878)	(1,208)	(1,273)
Net earned premium	**2,214**	**1,827**	**1,901**
Net claims expense	(1,345)	(1,071)	(1,330)
Commission expense	(122)	(106)	(106)
Underwriting expense	(315)	(249)	(267)
Underwriting profit	**432**	**401**	**198**
Investment income on technical reserves	77	61	52
Insurance profit	**509**	**462**	**250**

Insurance Ratios	1H18	2H18	1H19
Loss ratio	60.7%	58.6%	70.0%
Immunised loss ratio	61.2%	58.6%	69.3%
Expense ratio	19.7%	19.4%	19.6%
Commission ratio	5.5%	5.8%	5.6%
Administration ratio	14.2%	13.6%	14.0%
Combined ratio	80.4%	78.0%	89.6%
Immunised combined ratio	80.9%	78.0%	88.9%
Reported insurance margin	23.0%	25.3%	13.2%
Underlying insurance margin	13.9%	17.5%	17.3%

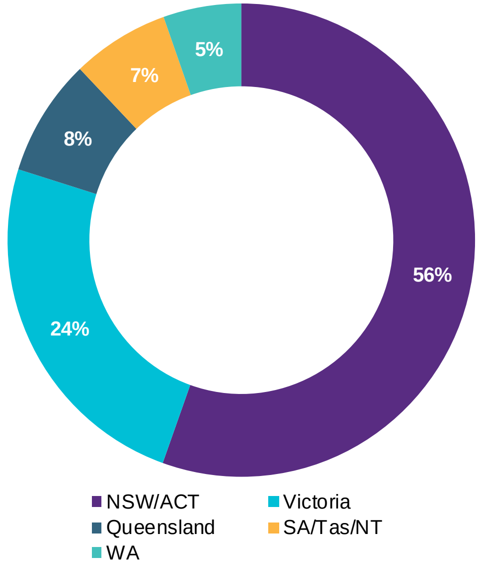
GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



1H19 GWP BY CLASS



1H19 GWP BY STATE

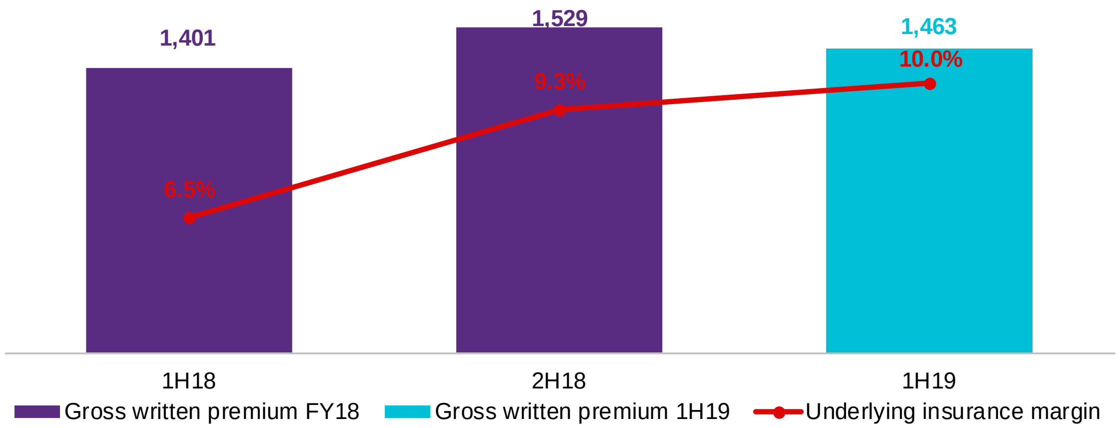


Appendix – Australia Business

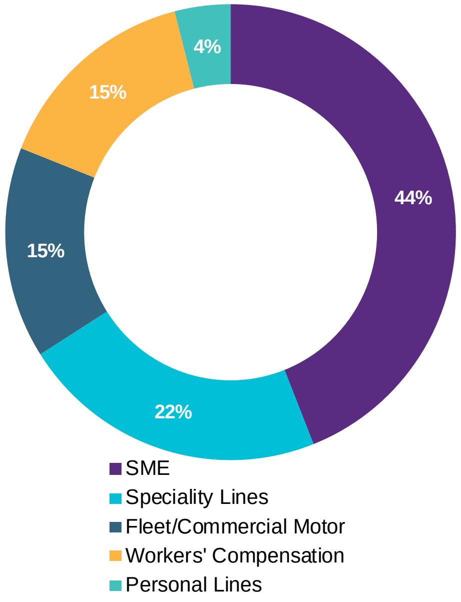
AUSTRALIA BUSINESS RESULTS	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**1,401**	**1,529**	**1,463**
Gross earned premium	1,520	1,484	1,524
Reinsurance expense	(407)	(554)	(591)
Net earned premium	**1,113**	**930**	**933**
Net claims expense	(650)	(565)	(613)
Commission expense	(169)	(132)	(133)
Underwriting expense	(221)	(164)	(170)
Underwriting profit	**73**	**69**	**17**
Investment income on technical reserves	43	34	37
Insurance profit	**116**	**103**	**54**
Profit/(loss) from fee based business	5	(10)	9
Share of profit/(loss) from associates	2	-	1
Total divisional result	**123**	**93**	**64**

Insurance Ratios	1H18	2H18	1H19
Loss ratio	58.4%	60.8%	65.7%
Immunised loss ratio	59.0%	60.6%	64.6%
Expense ratio	35.1%	31.8%	32.5%
Commission ratio	15.2%	14.2%	14.3%
Administration ratio	19.9%	17.6%	18.2%
Combined ratio	93.5%	92.6%	98.2%
Immunised combined ratio	94.1%	92.4%	97.1%
Reported insurance margin	10.4%	11.1%	5.8%
Underlying insurance margin	6.5%	9.3%	10.0%

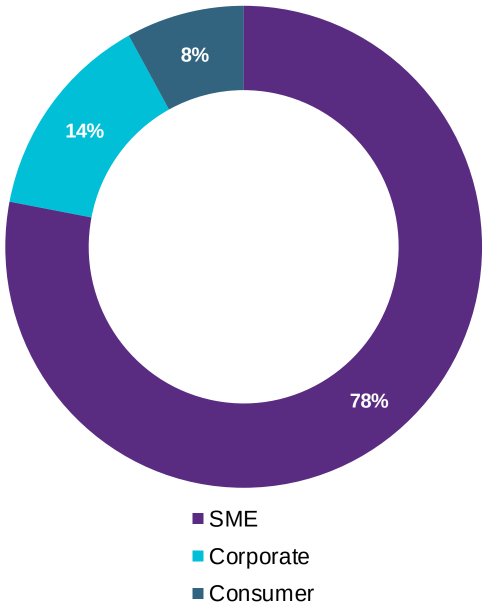
GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



1H19 GWP BY CLASS



1H19 GWP BY SEGMENT

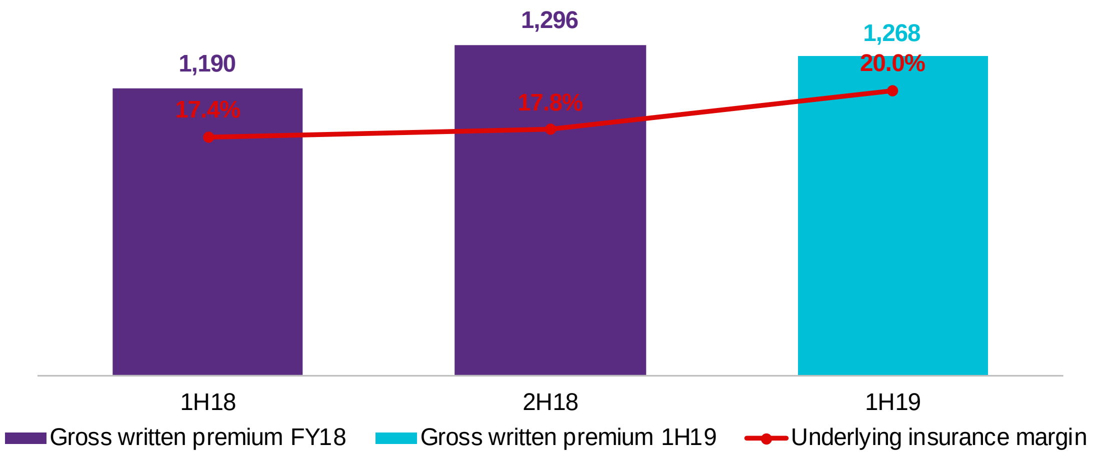


Appendix – New Zealand

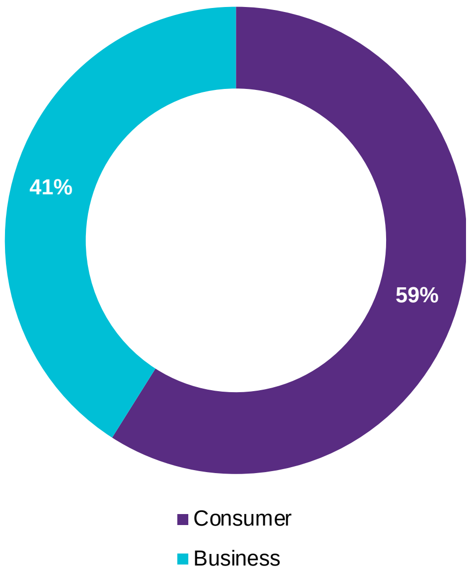
NEW ZEALAND RESULTS	1H18 A$m	2H18 A$m	1H19 A$m
Gross written premium	**1,190**	**1,296**	**1,268**
Gross earned premium	1,160	1,214	1,277
Reinsurance expense	(323)	(471)	(503)
Net earned premium	**837**	**743**	**774**
Net claims expense	(507)	(468)	(411)
Commission expense	(95)	(80)	(81)
Underwriting 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%

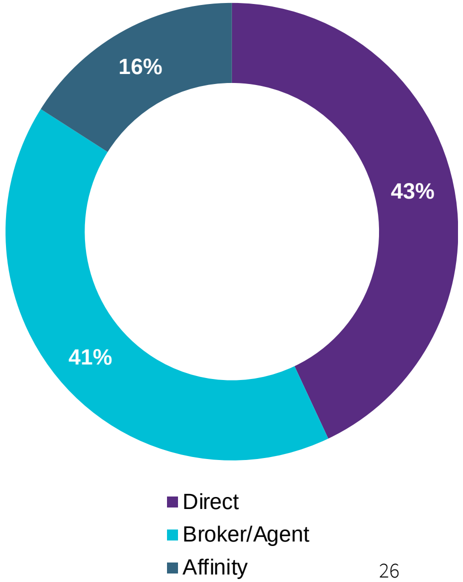
GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



1H19 GWP BY CLASS



1H19 GWP BY CHANNEL



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