



# Investor report FY19

8 August 2019

Insurance Australia Group Limited ABN 60 090 739 923

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# IMPORTANT INFORMATION

This report contains general information current as at 8 August 2019 and is not a recommendation or advice in relation to Insurance Australia Group Limited (IAG) or any product or service offered by IAG's subsidiaries. It presents financial information on both a statutory basis (prepared in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis. This report is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction.

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Any forward-looking statements, opinions and estimates in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Neither IAG, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this report will actually occur and IAG assumes no obligation to update such information. In addition, past performance is no guarantee or indication of future performance.

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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.

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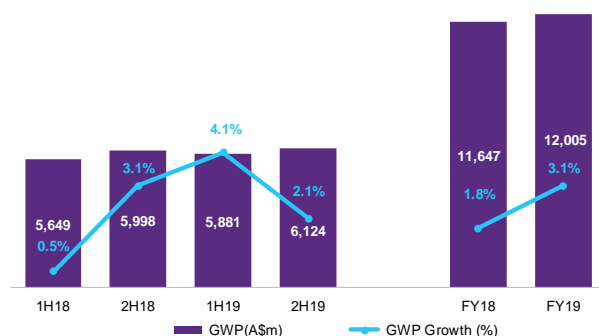
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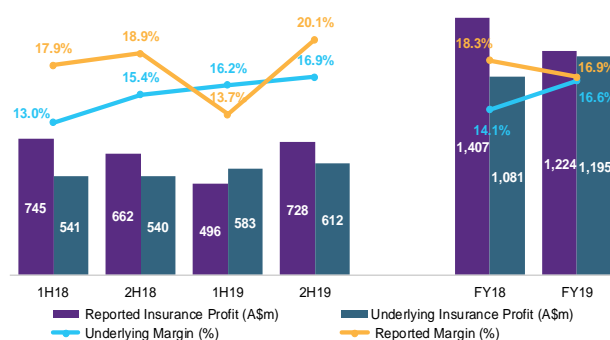
# FY19 RESULTS

KEY RESULTS	FY18 A\$m	1H19 A\$m	2H19 A\$m	FY19 A\$m	FY19 vs FY18 Mvt
<b>Gross written premium (GWP)</b>	<b>11,647</b>	<b>5,881</b>	<b>6,124</b>	<b>12,005</b>	<b>+3.1%</b>
Net earned premium (NEP)	7,671	3,611	3,627	7,238	-5.6%
<b>Insurance profit</b>	<b>1,407</b>	<b>496</b>	<b>728</b>	<b>1,224</b>	<b>-13.0%</b>
Net profit after tax (NPAT)	923	500	576	1,076	+16.6%
<b>Cash earnings</b>	<b>1,034</b>	<b>319</b>	<b>612</b>	<b>931</b>	<b>-10.0%</b>
Reported insurance margin	18.3%	13.7%	20.1%	16.9%	-140bps
<b>Underlying insurance margin</b>	<b>14.1%</b>	<b>16.2%</b>	<b>16.9%</b>	<b>16.6%</b>	<b>+250bps</b>
Diluted EPS (cents)	38.30	20.48	24.16	44.58	+16.4%
Diluted cash EPS (cents)	42.75	13.40	25.63	38.83	-9.2%
Cash return on equity (ROE)	15.6%	9.8%	19.6%	14.4%	-120bps
<b>Dividend (cents per share)</b>	<b>34.0</b>	<b>12.0</b>	<b>20.0</b>	<b>32.0</b>	<b>-5.9%</b>
Common Equity Tier 1 Capital (CET1) multiple	1.26	1.18	1.31	1.31	+5bps

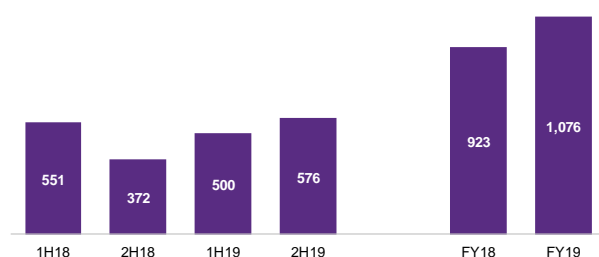
## GWP GROWTH



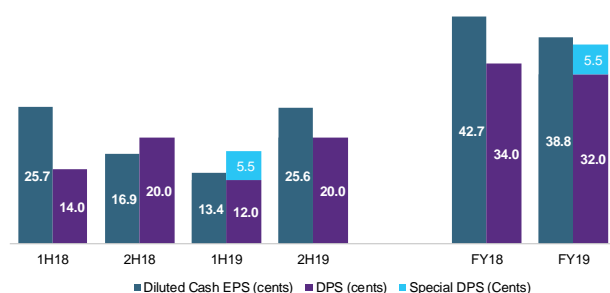
## INSURANCE PROFIT & MARGIN



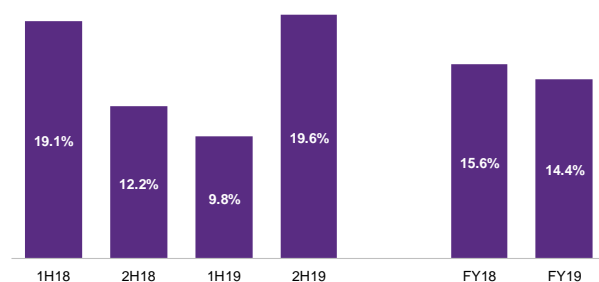
## NET PROFIT AFTER TAX (A\$m)



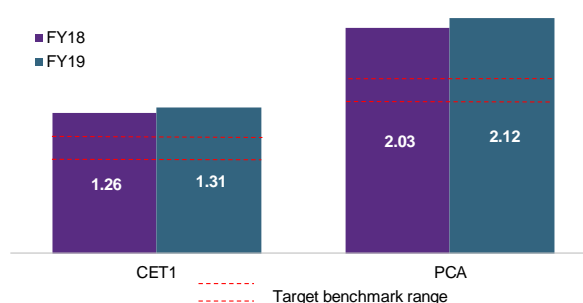
## DILUTED CASH EPS & DPS



## CASH ROE



## REGULATORY CAPITAL (MULTIPLE)



# 1. EXECUTIVE SUMMARY

## GROUP HIGHLIGHTS (VS. FY18)

- Higher underlying insurance margin<sup>1</sup> of 16.6% (vs. 14.1% in FY18), from improved business performance (~125 basis points (bps)) +together with favourable quota share effect
- Gross written premium (GWP) growth of 3.1%, largely rate-driven
- Business improvement centred on optimisation program benefits of ~\$90m, broadly in line with plan – slight offset from ~\$20m increase in regulatory and compliance costs
- Lower reported margin of 16.9% (vs. 18.3% in FY18) – lower reserve releases and adverse net natural peril claim experience
- Net profit after tax of \$1,076m, includes profit on sale of Thailand operations of over \$200m
- Cash earnings of \$931m (FY18: \$1,034m)
- 20 cents final dividend 70% franked (FY18: 20 cents, 100% franked) – full year dividend of 32 cents (FY18: 34 cents), cash payout ratio of 79.4%
- Strong capital position maintained – CET1 ratio of 1.31, above benchmark
- Further underlying improvement expected in FY20: guidance of low single digit GWP growth and reported insurance margin of 16-18% (includes lower reserve releases of ~1% of net earned premium (NEP))

## FY19 OVERVIEW

IAG delivered an improved underlying performance in FY19, in line with the guidance provided at the beginning of the financial year. IAG is now well-advanced in the simplification of its business, and is realising associated benefits. This leaves IAG well-placed to build on its customer engagement focus and identify future growth opportunities.

Within the FY19 results:

- Australia produced a sound performance, with strong personal lines profitability supplemented by encouraging improvement in commercial lines' margin; and
- New Zealand maintained its record of strong profitability and sound growth, reinforcing its position as the country's leading general insurer.

Overall GWP growth of 3.1% was largely rate-driven, and included a favourable foreign exchange translation effect in New Zealand. Like-for-like GWP growth was close to 4%, including allowance for ceased activities.

IAG's underlying insurance margin built on the improvement recorded in FY18, increasing to 16.6% (FY18: 14.1%). Part of the rise (~125bps) was derived from the increased quota share effect in 1H19, with the balance sourced from the net effect of:

- Earned rate increases, countering claims inflation;
- Net benefits from IAG's optimisation program; and
- Some offset from increased regulatory and compliance costs.

At the reported margin level, the improvement in underlying performance was outweighed by adverse net natural peril claim cost and credit spread movements, as well as significantly lower prior period reserve releases. Collectively, these reduced the reported margin by over 400bps, compared to FY18.

Net profit after tax of \$1,076m was over 16% higher than FY18, after inclusion of a greater than \$200m profit on the sale of the Thailand operations, which was completed at the end of August 2018. Agreed sales of interests in Indonesia and Vietnam are expected to complete in 1H20.

Improved underlying  
performance delivered in  
FY19

<sup>1</sup> 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 net earned premium (NEP); and  
– Credit spread movements.

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# 1. EXECUTIVE SUMMARY

IAG continues to explore options for its remaining investments in Asia. In June 2019, IAG confirmed discussions had been held with external parties regarding a potential sale of all or part of its 26% interest in SBI General Insurance Company (SBI General) in India. IAG is in advanced discussions with a number of bidders, which may result in one or more transactions being completed.

## GROSS WRITTEN PREMIUM (GWP)

FY19 GWP growth of 3.1% was close to the mid-point of the 2-4% guidance provided at the start of the financial year. Total GWP of \$12,005m included:

- \$9,331m in Australia, representing growth of 2.0%; and
- \$2,660m in New Zealand, translating to reported growth of 7.0% and embracing a favourable foreign exchange translation effect of ~180bps.

GWP growth was largely rate-driven, reflecting the response to short tail claim inflation pressures, which were generally low-to-mid-single-digit in scale, and the ongoing effort to raise rates in commercial classes to restore returns to acceptable levels.

Within personal lines, volume growth was achieved in short tail motor and CTP, while home volumes were modestly lower. Lower commercial volumes reflected pricing remediation activity and certain business withdrawals, partially countered by growth in areas such as workers' compensation and the NTI heavy haulage and marine joint venture.

Retention levels in personal lines remained high. Those in commercial lines generally held up better than expected, but declined where pricing action was most pronounced, while new business volumes were lower.

After allowance for the foreign exchange translation effect in New Zealand, lower post-reform NSW CTP pricing and ceased business activities, overall like-for-like GWP growth was close to 4%.

## UNDERLYING INSURANCE MARGIN

FY19's underlying insurance margin of 16.6% represented an uplift of approximately 250bps over FY18. This included approximately 125bps from a full year of the 12.5% quota share agreements which commenced on 1 January 2018 (~250bps when looking at 1H19 in isolation, vs. 1H18).

Short tail personal lines' profitability remained strong. Earned rate increases broadly matched higher average claim costs in both motor and home classes.

Commercial lines' profitability continued to improve, on the back of rate and remediation activity. Commercial profitability in Australia has also been aided by a return to more normal large loss experience in property classes.

Long tail CTP profitability was lower than in FY18, reflecting a full year of capped profitability under the new scheme in NSW, which commenced towards the end of 1H18. This effect was most notable in the opening half of the year, when the comparative period's profitability also reflected favourable effects from initial reform measures under the old scheme.

All aspects of IAG's insurance operations benefited from the outcomes of the group-wide optimisation program, as related one-off costs have dissipated. A net reduction in gross operating costs of around \$90m was realised in FY19, compared to the position at the end of FY16 which formed the basis of the program's targets. This was broadly in line with target.

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Like-for-like GWP growth close to 4%

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Higher underlying margin of 16.6%

# 1. EXECUTIVE SUMMARY

Some offset has been incurred from increased regulatory and compliance costs. In FY19 these had increased by approximately \$30m (pre-quota share) compared to the FY16 baseline position, and by ~\$20m against FY18. Contributory factors were expenditure associated with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) and the risk governance self-assessment requested by the Australian Prudential Regulation Authority (APRA).

## REPORTED INSURANCE MARGIN

IAG's reported insurance margin was 16.9%, close to the mid-point of the guidance range of 16-18% provided at the outset of the financial year. The outcome was lower than FY18 (18.3%), with contributory factors being:

- \$627m of net claim costs arising from natural peril events (which exceeded the year's allowance by \$19m), after full use of the \$101m of stop-loss reinsurance protection in 2H19. This exceeded FY18 net natural peril claim costs by \$86m, with the differing outcomes accounting for a reduction in FY19 reported margin of approximately 160bps;
- Lower net prior period reserve releases of \$126m (FY18: \$305m) which represented 1.7% of NEP, and broadly accorded with IAG's guidance assumption of around 2%. Reserve releases in FY18 amounted to 4.0% of NEP; and
- A \$20m unfavourable movement in credit spread impact, with an adverse effect of \$6m in FY19 contrasting with a favourable impact of \$14m in FY18.

Reported margin of 16.9%, close to mid-point of guidance range

## DIVISIONAL HIGHLIGHTS

DIVISION	FY18				FY19			
	GWP	INSURANCE MARGIN			GWP	INSURANCE MARGIN		
	Reported A\$m	Growth %	Reported %	Underlying %	Reported A\$m	Growth %	Reported %	Underlying %
Australia	9,144	0.7	19.6	12.9	9,331	2.0	14.9	15.5
Consumer	6,214	1.6	24.0	15.5	6,355	2.3	17.3	17.5
Business	2,930	(1.1)	10.7	7.8	2,976	1.6	9.8	11.1
New Zealand	2,486	6.3	13.8	17.6	2,660	7.0	24.7	19.5
Corporate & Other	17	nm	nm	nm	14	nm	nm	nm
<b>Total Group</b>	<b>11,647</b>	<b>1.8</b>	<b>18.3</b>	<b>14.1</b>	<b>12,005</b>	<b>3.1</b>	<b>16.9</b>	<b>16.6</b>

**Australia** (78% of GWP) performed soundly, with a strong Consumer margin supplemented by an improving trend in Business. GWP growth of 2.0% was skewed towards Consumer and underpinned by rate increases that responded to claims inflation pressures in motor and home, with some offset from lower rates in NSW CTP. Business GWP growth was modest, as rate increases were offset by volume loss linked to remedial pricing activity and business exits. Underlying insurance margin improvement was achieved by both Consumer and Business, as optimisation benefits accrued. Business' profitability was also assisted by compound rate increase effects and a reversion to more normal large loss levels in property classes.

**New Zealand** (22% of GWP) maintained its strong performance of recent periods. Local currency GWP growth of 5.2% inflated to 7.0% on a favourable foreign exchange translation effect. Predominantly rate-driven growth was achieved in both personal and commercial lines, with some offset from lower commercial volumes. Higher underlying profitability (after allowance for quota share effects) included optimisation benefits, while a significantly higher reported margin reflected a benign natural perils experience and a favourable reserve release movement.

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

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# 1. EXECUTIVE SUMMARY

## NET PROFIT AFTER TAX / RETURN ON EQUITY

Net profit after tax of \$1,076m was 16.6% higher than FY18 (\$923m), and contained:

- A 13% decrease in pre-tax insurance profit to \$1,224m, with adverse peril, reserve release and credit spread movements (vs. FY18) exceeding the improvement in underlying performance;
- A 38% improvement in investment income on shareholders' funds, following a strong rally in equity markets in 2H19;
- A significant contribution 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.

After excluding the profit on Thailand, cash earnings decreased by 10%, to \$931m, while diluted cash EPS of 38.83 cents was 9.2% lower than FY18.

Reported return on equity (ROE) in FY19 was 16.7%, while cash ROE was 14.4%. 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

The Board has determined to pay a final dividend of 20.0 cents per ordinary share, franked to 70%. This brings the full year dividend to 32.0 cents per share (FY18: 34.0cps), and equates to a cash payout ratio of 79.4%. IAG's dividend policy remains one of distributing 60-80% of cash earnings, on a full year basis.

## CAPITAL

IAG's capital position remains strong. At 30 June 2019 IAG's Common Equity Tier 1 (CET1) ratio was 1.31, and 1.12 after allowance for payment of the final dividend. IAG's CET1 target benchmark is 0.9-1.1.

IAG's debt to total tangible capitalisation ratio at 30 June 2019 was 36.5%, within 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, as a non-operating holding company, is rated 'A'.

IAG's probability of adequacy for the outstanding claims liability remained 90% at 30 June 2019.

## FY20 OUTLOOK

IAG's GWP growth guidance for FY20 is 'low single digit'. Feeding into this expectation are:

- Anticipated rate increases across short tail personal lines in Australia and New Zealand;
- A modest expected advance in combined short tail personal line volumes;
- Further average rate increases in Australian and New Zealand commercial classes;
- Lower commercial volumes, including a greater than \$100m reduction in GWP from recent business exits; and
- Lower CTP rates stemming from scheme change in each of NSW, the ACT and South Australia, partially offset by modest volume growth.

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Increase in net profit owing to gain on sale of Thailand operations

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Final dividend of 20 cents, 70% franked – full year payout >79% of cash earnings

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Strong capital position maintained – CET1 ratio of 1.31

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FY20 GWP growth guidance of 'low single digit'



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# 1. EXECUTIVE SUMMARY

IAG's FY20 reported insurance margin guidance range is 16-18%.

Associated ingredients and assumptions comprise:

- Further incremental improvement (of ~\$160m pre-tax) from optimisation program initiatives, cumulatively approximating the \$250m pre-tax target originally set;
- An offset from higher regulatory and compliance costs, which are expected to increase by up to a further \$50m, including increased investment in risk-related resources;
- Some drag from a lower investment running yield, reflecting the recent reduction in interest rates;
- Net losses from natural perils in line with an increased allowance of \$641m (\$950m, pre-quota share);
- Lower prior period reserve releases of around 1% of NEP; and
- No material movement in foreign exchange rates or investment markets.

Investments made through Customer Labs over the last three years, in data, artificial intelligence and innovation, have encouraged IAG to accelerate its spend on these technologies and the associated businesses it is developing. As a result, the amount by which expenditure exceeds revenue is expected to expand in FY20 and contribute to an increased pre-tax loss in the fee income line, of up to \$50m (FY19: pre-tax loss of \$9m).

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FY20 reported insurance margin guidance range of 16-18% - increased optimisation benefits offset by lower reserve releases

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## 2. STRATEGY

### MAKING CUSTOMERS FEEL SAFER ON THE ROAD, IN THEIR HOMES AND AT WORK

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.

IAG is focused on building a lean, efficient and modular insurance operation, through its **simplification** priority, while creating a **customer**-focused organisation with enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation, and driving towards the creation of an **agile** organisation.

With simplification well-progressed, IAG is now increasing its focus on **customer engagement** and longer term growth. This includes extending 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 is also leveraging its assets – including its data, customer reach and brands – to launch and scale new 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.

### STRATEGIC TARGETS

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

- Cash ROE 1.5 times weighted average cost of capital (WACC);
- A dividend payout of 60-80% of full year cash earnings; and
- A top quartile total shareholder return (TSR).

These financial targets are complemented by short term balanced scorecard objectives for the enterprise, including financial performance (including underlying profit, GWP growth, operating costs), customer advocacy and growth, people engagement and leadership effectiveness, and IAG's risk maturity performance.

### STRATEGIC PRIORITIES

IAG continues with its three key strategic priorities, supported by organisational capabilities, to deliver its strategy:

#### I. Customer – World-leading customer experiences:

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

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

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

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

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

### 3. SAFER COMMUNITIES

IAG has a clear purpose: **to make your world a safer place**. IAG is committed to creating communities and people ready for anything through connected customer and community experiences which make people feel safer. IAG is also committed to operating a responsible and ethical business which sets the standard for exceeding community and customer expectations.

IAG has evolved its safer communities approach to enhance the delivery of its purpose and organisational strategy. The approach is informed by the United Nations Sustainable Development Goals (SDGs), the material issues identified through stakeholder engagement as facing IAG's business, and the unique resources, capability and assets of the organisation. IAG has prioritised two key areas where it can make a meaningful difference to society and business:

- **Disaster risk reduction and climate change** – enabling communities in Australia and New Zealand to better prepare for, and respond to, natural perils and climate change.
- **Community connection and resilience** – building safer and more connected communities that have the capacity to grow and thrive by partnering, accelerating the role of business in resilience and taking a community-led approach.

#### APPROACH INFORMED BY IDENTIFIED MATERIAL ISSUES AND THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Each year, IAG identifies the material issues that affect its ability to make your world a safer place. Material issues are based on importance to IAG's stakeholders (both internal and external) and the impact IAG has on the community, environment and economy.

Understanding these material issues helps IAG to strategically concentrate effort on the areas where the best positive impact can be achieved, while delivering on its purpose. IAG's material issues are:



Post-disaster relief and emergency response



Customer and partner experience



Trust in institutions



Access and affordability of insurance

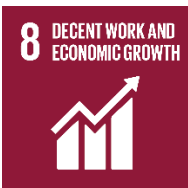


Community connection and resilience



Climate change and its impacts

IAG supports the United Nations Sustainable Development Goals (SDGs) to advance economic, social and environmental prosperity. IAG recognises that the social and environmental challenges faced by communities, countries and regions affect business and influence commercial success. While IAG's work to create safer communities and focus on risk transfer through insurance can support many of the SDGs, IAG prioritises those SDGs where it can make the largest difference:



Approach guided by identified material issues and commitment to UN Sustainable Development Goals

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## 3. SAFER COMMUNITIES

### DISASTER RISK REDUCTION AND CLIMATE CHANGE

IAG is committed to **disaster risk reduction**, and was a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable) in 2012. Since then, the Roundtable has delivered five research reports to help build a country better equipped to handle extreme weather events.

During FY19, the Roundtable refined its focus to engage with disaster resilience frameworks and policies sitting at all levels of government, and to demonstrate that business and the wider Australian community has a role to play in building resilient communities.

Through its activity, the Roundtable made recommendations which influenced the Australian Government to establish the National Resilience Taskforce in 2018. The Roundtable and IAG have since contributed to the work of the Taskforce, including the multi-sector collaborative effort to develop the National Disaster Risk Reduction Framework and have committed to play an ongoing role in its implementation.

IAG is a signatory to the voluntary principles-based frameworks of the United Nations Environment Programme – Finance Initiative (UNEP-FI), including the Principles for Sustainable Insurance (PSI) and Principles for Responsible Investment (PRI), as well as the Geneva Association's Climate Risk Statement. IAG representatives occupy the roles of Co-Chair of the UNEP-FI Global Steering Committee and Co-Chair of the UNEP-FI PSI Board.

**Climate change** is one of the world's most pressing issues. IAG has a long-standing record of addressing the opportunities and risks associated with climate change and taking practical steps to minimise its own environmental impact, as outlined in IAG's Climate Action Plan, which can be found in the Safer Communities section of [www.iag.com.au](http://www.iag.com.au).

From FY18, IAG commenced the expansion of its climate change-related disclosure to facilitate the phased introduction of the recommendations of the **Taskforce on Climate-related Financial Disclosures** (TCFD). IAG is participating in the PSI TCFD pilot, along with other global insurers and reinsurers, informing its approach to climate-related disclosure of opportunities and risks across physical, transitional and liability aspects, and its approach to scenario analysis.

- **Governance:** Under its Board Charter, IAG's Board has responsibility to review and monitor implementation of IAG's shared value and sustainability strategy, including climate change. IAG's sustainability performance is managed within a safer communities framework and is supported by a number of IAG policies and position statements including its Social and Environmental Policy, Public Policy Position on Climate Change and Climate Action Plan. IAG's CEO has management accountability for the implementation, performance and external disclosure of safer communities activities. Progress against the Climate Action Plan is disclosed publicly every six months;
- **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. IAG continues to investigate product and service opportunities that support adaptation and emission reductions. IAG manages climate change risks through the development of models which map possible natural peril event outcomes. These inform IAG's risk-based pricing and reinsurance requirements, ensuring IAG's strategy and business is resilient in the short term. In order to better understand the most significant impacts of climate change on its business, a series of cross-functional workshops was held in FY19 involving IAG leaders and

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Enabling communities to better prepare and respond to natural perils and climate change

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Phased introduction of TCFD-related recommendations

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## 3. SAFER COMMUNITIES

external stakeholders. The workshops were designed to determine the most significant political, economic, social, technological, environmental and legal factors affected by a +2°C temperature increase by 2030, while considering physical, transition and liability risk. As a result, four 'plausible scenarios' were developed to input into product development and pricing strategies in the short term and to assess the resilience of IAG's strategy in the medium and long term. These scenarios will be used in strategy and business planning across FY20;

- **Risk Management:** The Enterprise Risk Profile (ERP) is IAG's framework to identify risks inherent in its strategy which may inhibit meeting or achieving its strategic objectives. IAG manages risks through its ERP process, which identifies the impacts of climate change as being a high risk event. IAG manages its inherently high risks through cause and effect analysis (or bow-tie analysis), which seeks to identify the key causes and consequences attached to climate change risks, and the controls and mitigating strategies. The bow-tie analysis is embedded within IAG's Risk Response Plan which is integrated with IAG's Risk Management System, Risk Appetite Statement and Risk Management Strategy; and
- **Metrics:** IAG has been carbon neutral across scope 1, 2 and 3 emissions since 2012. IAG has set science-based absolute emission targets for scope 1 and 2 emissions to meet its Paris Agreement commitments to keep climate change below 2°C. Using FY18 as a baseline, IAG's science-based absolute emission targets for scopes 1 and 2 are a 20% reduction by 2020, 43% by 2025, 71% by 2030 and 95% by 2050. IAG measures (and has been reducing) its exposure to high carbon risk companies in its investments and underwriting, and the carbon intensity of its equity investments. For more information see the Safer Communities section of [www.iag.com.au](http://www.iag.com.au).

### COMMUNITY CONNECTION AND RESILIENCE

When communities are connected they are more resilient and able to bounce back when disaster strikes. IAG works to build safer and more connected communities to support customer engagement and reduced claim impacts through the safety and resilience initiatives within its Good 'Hoods program, Indigenous engagement strategies, IAG Foundation, social innovation and partnerships. IAG's partnerships include those with the Australian and New Zealand Red Cross, the State Emergency Service in both New South Wales and Queensland, and GIVIT, an organisation which safely connects those who have items to share with those who need those items.

#### Reconnecting communities by celebrating and enabling positive community activity

In Australia, the **Good 'Hoods** program works both nationally and locally to identify and grow community development initiatives that create connected and safe neighbourhoods. IAG has partnered with the local government areas of Murrindindi, Victoria and Blacktown, NSW and is providing support to leaders to develop community-led solutions, while documenting insights to share successful initiatives with other communities across the country.

In Blacktown, NRMA Insurance has partnered with Blacktown City Council and Cool Streets™ to plant over 100 trees to reduce urban heat. In Murrindindi, IAG is working with the local council to trial a community planning model that, informed by the response to the Black Saturday bushfires in 2009, highlights the importance of local leaders and networks in supporting preparedness and recovery.

In New Zealand, IAG worked with the Red Cross to give Emergency Essentials Packs to over 65,000 New Zealanders who received first aid training from the Red Cross.

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Building safer and more connected communities that have the capacity to grow and thrive

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## 3. SAFER COMMUNITIES

### First Peoples play a critical role in community resilience

Connected and resilient communities in Australia and New Zealand are dependent on acknowledging and valuing the deep and rich cultural heritage and knowledge held by the First Peoples in both these countries. In Australia, IAG has developed and is implementing an **Indigenous Engagement Strategy**, and in New Zealand a **Māori Engagement Strategy**, which builds on work already done by IAG's Māori Employee Group, is close to completion.

The key commitments in IAG's Indigenous Engagement Strategy are to:

- Reduce incarceration of, and reoffending by, Aboriginal and Torres Strait Islander Australians;
- Encourage more Australians to advocate the unique role that Aboriginal and Torres Strait Islander culture plays in Australia's national identity;
- Support Indigenous individuals, businesses and communities to be more confident and resilient; and
- Help current and future Indigenous change-makers, influencers and entrepreneurs to be better leaders and create more impact.

IAG has an Aboriginal and Torres Strait Islander employment target of 2% of its Australian workforce by December 2021. Progress against this target is reported annually in the Safer Communities section of [www.iag.com.au](http://www.iag.com.au).

IAG's third **Reconciliation Action Plan** (RAP) was launched in February 2019. This RAP was acknowledged as an Elevate RAP, after a strict quality assurance process run by Reconciliation Australia. This Elevate status was awarded due to IAG's proven track record of embedding effective RAP initiatives across its business.

Elevate RAP organisations take a leadership role to advance reconciliation nationally. In May 2019, with thirteen Elevate RAP organisations, IAG played a leading role in publicly supporting the Uluru Statement from the Heart, an Aboriginal and Torres Strait Islander consensus position on First Nations constitutional recognition.

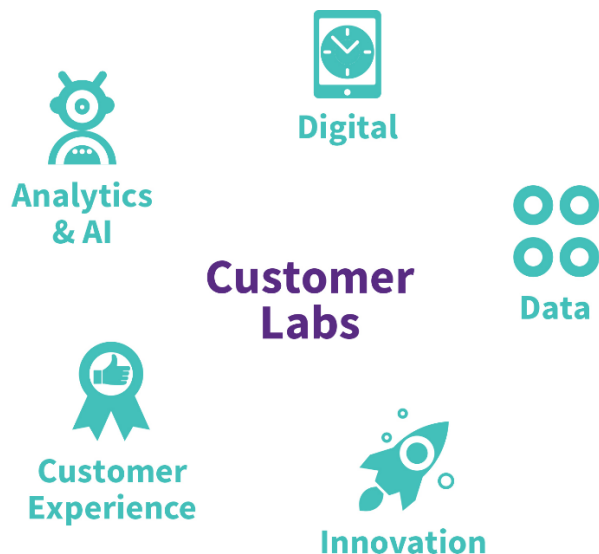
### Supporting connected and resilient communities through encouraging behavioural change

Where possible, IAG leverages its consumer-facing brands to deliver community resilience-building programs that improve customer advocacy and retention and create longer term commercial opportunities for IAG's business.

The NRMA Insurance **Safety Hub** was created as an on-line platform to test a process for rewarding customers for taking action to mitigate hazards they may experience at home and encouraged them to be proactive about safety in the home and in the local community. Weather and geographical data was used to identify the greatest insurance risks to Australian homes and the highest risk customers were targeted. A series of tasks was suggested, outlining steps that could be taken to reduce risk and increase safety in the home. The program engaged 2,800 customers who completed over 4,500 safety tasks. As a result, thousands of dollars in potential claims were prevented. 84% of users engaged with and completed tasks, and a survey of participants showed 82% felt prepared to recover from an unexpected event. Lessons from the program will be incorporated into future risk reduction initiatives.



## 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 connections. 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.

Since its establishment in 2015, Customer Labs has been building capabilities to pave the path for future growth opportunities. During FY19, its discovery and experimentation phase, centred on new products, solutions and approaches, began to shift towards deployment and scaling of those ideas across the business.

### CUSTOMER EXPERIENCE

In 2019, Customer Labs' focus has been on better understanding customers and ensuring the right frameworks are in place to keep them safe.

In 2H19, Customer Labs facilitated the adoption of the **IAG Customer Equity Framework**. This entails guiding principles and standards for the provision of equitable experiences to each customer, acknowledging circumstances where a higher level of care may be required. It serves to shape decisions about the design of IAG's offerings and experiences in a way that makes them accessible to all customers. Early focus has been on identifying and addressing the needs of those experiencing vulnerability, such as physical disability, mental health challenges, financial distress or domestic violence.

During FY19, Customer Labs established a **behavioural science capability**. Insights that relate to the relationship between customer attitudes and behaviours will be applied to the design of future products to create maximum value for customers as well as improving their safety. Additionally, Customer Labs has engaged in research partnerships with universities and industry participants to explore risk-based decision-making.

Customer Labs' marketing team has created the **'Stories of Help' content series for NRMA Insurance**. The series contributed to IAG capturing a leading share of voice in social media in the financial services category. Share of voice is an independently reported measure that represents the share of social media interactions such as likes, comments and shares.

Customer Labs' marketing team continued to develop campaigns focused on bringing IAG's purpose to life by **making people safer on the roads**. During FY19, this included a high-profile Christmas campaign "Don't drive naughty, drive nice," which was supported by a prominent outdoor advertising initiative in regional NSW, targeting major highways and holiday routes. More recently, Customer Labs partnered with NRMA Motoring & Services to offer a motor product with complementary roadside assistance, helping customers be safer on the road.

**Inclusive customer offerings and experiences to improve safety**

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## 4. CUSTOMER LABS

In 2H19, a dedicated **NRMA Insurance campaign in Queensland**, themed 'Help for when Queensland happens', was launched. This resonated strongly with audiences, scoring highly on recognition and memorability indicators.

### DATA

Data provides IAG with a lens into customers' worlds, the assets they insure and the ways in which they interact with IAG's brands. The journey towards housing all customer data on a **single data platform** is enabling 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.

Using the single data platform, Customer Labs' data team digitally enabled a **360° view of individual customers' relationships with IAG**. The new functionality provides an historical view of each customer's interactions across IAG's brands. It includes details of insured assets, the types of policies held, claims made, marketing communications received and contact activity, as well as customer satisfaction feedback. This comprehensive view will be used to personalise digital and phone channel interactions and to better serve customers' needs.

The increasing volume and complexity of IAG data continues to be supported by the flexibility of compute power offered by the public cloud. During 2H19, a second material workload was moved into the public cloud, with further accelerated migrations planned for FY20. To support employee learning and development of new skills, Customer Labs together with IAG's Group Technology team established the **Cloud Academy**, which provides practical guidance on how to make the most of the cloud environment.

### ANALYTICS & ARTIFICIAL INTELLIGENCE (AI)

The enhanced view of customers developed by the data team enabled Customer Labs' analytics and AI function to advance a range of initiatives during FY19, including:

- Continued **roll-out of IAG's world-class pricing capability** across the NRMA Insurance, RACV and CGU home portfolios;
- Use of cloud-based technology to **deploy and scale predictive machine learning models**, providing the ability to deliver a broader range of personalised digital services to customers faster and more efficiently;
- Improving ease of service for visitors to the NRMA Insurance website by **using algorithms to enrich a customer's profile** with predictions, anticipating their needs and simplifying their journeys; and
- Using neural networks (connected sets of algorithms that can analyse and learn from data) and IAG's customer segmentation model to present audiences with **relevant online advertising and content** through the Facebook and Google platforms, based on a deep understanding of customer needs.

Customer Labs has continued to consider the ethical aspects of AI use. To support this thinking, in December 2018 IAG became a founding partner of the **Gradient Institute**, together with the Commonwealth Scientific and Industrial Research Organisation's (CSIRO) Data61 and the University of Sydney. Since its establishment, the Institute has progressed a considerable research agenda, delivered training on aspects of ethical AI use to organisations, and contributed to policy development through its submission to the Department of Industry, Innovation and Science on Australia's Ethical AI Framework.

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Drawing on data to grow customer understanding

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Range of analytics and AI initiatives advanced



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## 4. CUSTOMER LABS

### DIGITAL

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

- Increased personalisation for customers by deploying the models created by Customer Labs' analytics and AI function into digital experiences;
- Further development of Application Programming Interfaces (APIs) that enable IAG to connect customers to more products and services; and
- Scaling IAG's digital infrastructure.

The **digitisation program** for the direct consumer business has to date led to 80% of insurance products being available online for the NRMA Insurance, SGIO and SGIC brands. The digital channel now accounts for over 50% of all direct customer interactions, up from 10% three years ago. In 2H19, the digitisation program was expanded to all direct insurance products in Australia, which includes business and SME product lines for NRMA Insurance and CGU.

The **new digital customer experience for claims** has enabled the online lodgement, allocation, tracking and management of motor and home claims across all IAG's brands in Australia and New Zealand. Customers now benefit from a simpler and more transparent claims process with a reduction in associated claims handling costs.

In FY19, Customer Labs' Digital team **simplified frontline staff and customer digital experiences** by creating a single platform that supports customer interactions relating to policy servicing and claims lodgement for the NRMA Insurance, SGIO and SGIC brands. This simplification has reduced the number of calls received by an estimated 800,000 per year, as multiple customer needs can be addressed in a single call. It has also shortened the average call handling time, creating capacity for staff to engage in relationship-building conversations with customers.

### INNOVATION & VENTURING

At IAG, innovation entails learning, experimentation and partnering to rapidly develop, test and prototype new products and services. During FY19, Customer Labs' **focus transitioned** from research, development, prototyping and testing, **towards accelerated deployment and scaling of new products and ventures**.

The **ShareCover** host property rental insurance product, which launched in September 2015, has expanded to include other shared economy offerings:

- **Rideshare** for drivers who use their car to provide rideshare services;
- **Boatshare** as part of boat-sharing platforms; and
- **TaskCover** which provides public liability and professional indemnity insurance for individuals on service platforms, such as Airtasker.

Single item insurance, **Insurance4That**, recorded very strong GWP growth off a small base, while expanding its distribution partnership network. Between ShareCover and Insurance4That, more than 9,000 new customers have been introduced to IAG.

Informed by changing trends in car ownership, Customer Labs' innovation team is exploring the emergence of subscription services. It established a partnership with **Carbar**, a digital car trading platform, with IAG acquiring a 51% stake in June 2019. Carbar caters to the growing customer appetite for alternative forms of vehicle ownership and provides an opportunity for IAG to design complementary forms of insurance. This collaboration will also focus on growing Carbar's vehicle subscription model and its online car trading platform.

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Continued drive of  
digitisation across IAG

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Shifting from product  
development, testing and  
prototyping to scaling new  
products and ventures

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## 4. CUSTOMER LABS

The **Firemark Ventures** investment fund has concentrated on creating strategic value from the investments it has made to date, including the design and embedment of new products with Airtasker and UpGuard. Firemark Ventures completed one new investment and one follow-on investment in 2H19. During this period, over 150 start-up businesses were assessed and four deep-dives completed. Additionally, six market scans were conducted to identify potential investment opportunities in Customer Labs' focus areas of computer visioning, voice analytics, location data, aerial imagery and drone technologies. The total amount invested by Firemark Ventures to date is ~\$19m across eight companies, with a strong opportunity pipeline established for FY20.

# 5. GROUP RESULTS

## FINANCIAL PERFORMANCE

	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
<b>GROUP RESULTS</b>						
<b>Gross written premium</b>	<b>5,649</b>	<b>5,998</b>	<b>5,881</b>	<b>6,124</b>	<b>11,647</b>	<b>12,005</b>
Gross earned premium	5,780	5,742	5,984	5,958	11,522	11,942
Reinsurance expense	(1,613)	(2,238)	(2,373)	(2,331)	(3,851)	(4,704)
<b>Net earned premium</b>	<b>4,167</b>	<b>3,504</b>	<b>3,611</b>	<b>3,627</b>	<b>7,671</b>	<b>7,238</b>
Net claims expense	(2,505)	(2,112)	(2,358)	(2,261)	(4,617)	(4,619)
Commission expense	(387)	(320)	(324)	(351)	(707)	(675)
Underwriting expense	(653)	(517)	(535)	(506)	(1,170)	(1,041)
<b>Underwriting profit</b>	<b>622</b>	<b>555</b>	<b>394</b>	<b>509</b>	<b>1,177</b>	<b>903</b>
Investment income on technical reserves	123	107	102	219	230	321
<b>Insurance profit</b>	<b>745</b>	<b>662</b>	<b>496</b>	<b>728</b>	<b>1,407</b>	<b>1,224</b>
Net corporate expense	-	(9)	5	(9)	(9)	(4)
Interest	(39)	(43)	(48)	(46)	(82)	(94)
Profit/(loss) from fee based business	-	(12)	5	(14)	(12)	(9)
Share of profit from associates	19	15	19	26	34	45
Investment income on shareholders' funds	129	36	(7)	234	165	227
<b>Profit before income tax and amortisation</b>	<b>854</b>	<b>649</b>	<b>470</b>	<b>919</b>	<b>1,503</b>	<b>1,389</b>
Income tax expense	(211)	(173)	(123)	(240)	(384)	(363)
<b>Profit after income tax (before amortisation)</b>	<b>643</b>	<b>476</b>	<b>347</b>	<b>679</b>	<b>1,119</b>	<b>1,026</b>
Non-controlling interests	(19)	(60)	(25)	(73)	(79)	(98)
<b>Profit after income tax and non-controlling interests (before amortisation)</b>	<b>624</b>	<b>416</b>	<b>322</b>	<b>606</b>	<b>1,040</b>	<b>928</b>
Amortisation and impairment	(65)	(28)	(29)	(28)	(93)	(57)
<b>Profit attributable to IAG shareholders from continuing operations</b>	<b>559</b>	<b>388</b>	<b>293</b>	<b>578</b>	<b>947</b>	<b>871</b>
Net profit/(loss) after tax from discontinued operations	(8)	(16)	207	(2)	(24)	205
<b>Profit attributable to IAG shareholders</b>	<b>551</b>	<b>372</b>	<b>500</b>	<b>576</b>	<b>923</b>	<b>1,076</b>
<b>Insurance Ratios - Continuing Business</b>						
	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY18</b>	<b>FY19</b>
Loss ratio	60.1%	60.3%	65.3%	62.3%	60.2%	63.8%
Immunised loss ratio	60.9%	60.1%	64.6%	59.5%	60.5%	62.0%
Expense ratio	25.0%	23.9%	23.8%	23.7%	24.5%	23.7%
Commission ratio	9.3%	9.1%	9.0%	9.7%	9.2%	9.3%
Administration ratio	15.7%	14.8%	14.8%	14.0%	15.3%	14.4%
Combined ratio	85.1%	84.2%	89.1%	86.0%	84.7%	87.5%
Immunised combined ratio	85.9%	84.0%	88.4%	83.2%	85.0%	85.7%
<b>Reported insurance margin</b>	<b>17.9%</b>	<b>18.9%</b>	<b>13.7%</b>	<b>20.1%</b>	<b>18.3%</b>	<b>16.9%</b>
<b>Underlying insurance margin</b>	<b>13.0%</b>	<b>15.4%</b>	<b>16.2%</b>	<b>16.9%</b>	<b>14.1%</b>	<b>16.6%</b>
<b>Key Financial Metrics (Total Operations)</b>						
	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY18</b>	<b>FY19</b>
Reported ROE (average equity) (% pa)	16.8%	11.2%	15.4%	18.4%	14.0%	16.7%
<b>Cash ROE (average equity) (% pa)</b>	<b>19.1%</b>	<b>12.2%</b>	<b>9.8%</b>	<b>19.6%</b>	<b>15.6%</b>	<b>14.4%</b>
Basic EPS (cents)	23.32	15.75	21.31	24.99	39.06	46.26
Diluted EPS (cents)	22.60	15.58	20.48	24.16	38.30	44.58
Cash EPS (cents)	26.66	17.11	13.60	26.56	43.78	40.04
<b>Diluted cash EPS (cents)</b>	<b>25.73</b>	<b>16.86</b>	<b>13.40</b>	<b>25.63</b>	<b>42.75</b>	<b>38.83</b>
<b>DPS (cents)</b>	<b>14.00</b>	<b>20.00</b>	<b>12.00</b>	<b>20.00</b>	<b>34.00</b>	<b>32.00</b>
Probability of adequacy	90%	90%	90%	90%	90%	90%
<b>CET1 multiple</b>	<b>1.19</b>	<b>1.26</b>	<b>1.18</b>	<b>1.31</b>	<b>1.26</b>	<b>1.31</b>
PCA multiple	1.81	2.03	2.00	2.12	2.03	2.12

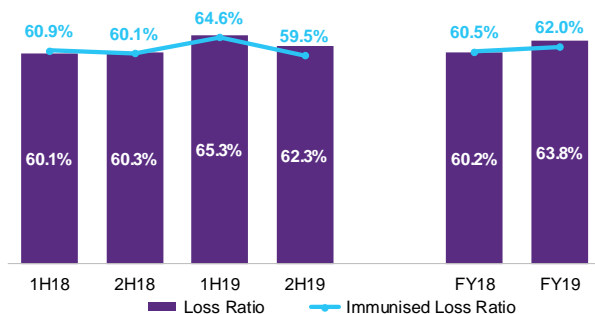
## KEY FOREIGN EXCHANGE RATES APPLIED

	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY18	FY19	FY18	FY19
New Zealand dollar	1.0929	1.0449	1.08460	1.0662
Malaysian ringgit	2.9868	2.9000	3.1526	2.9505
Indian rupee	50.6073	48.3793	50.4286	50.4032

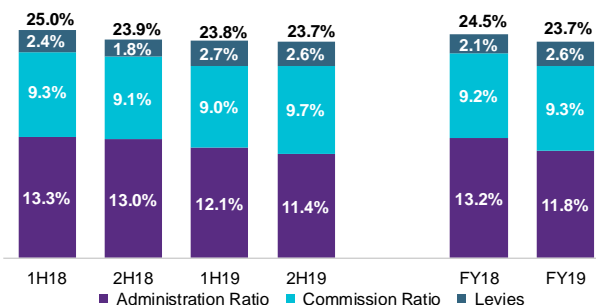
## 5. GROUP RESULTS

### INSURANCE RATIOS

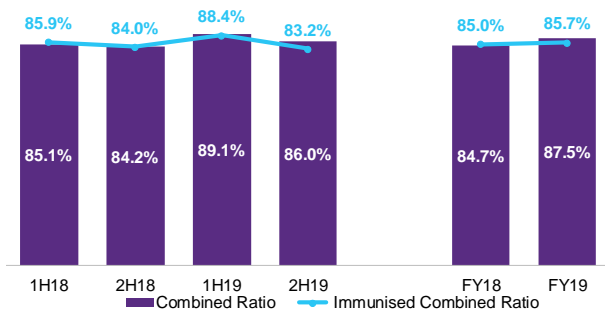
#### LOSS RATIO



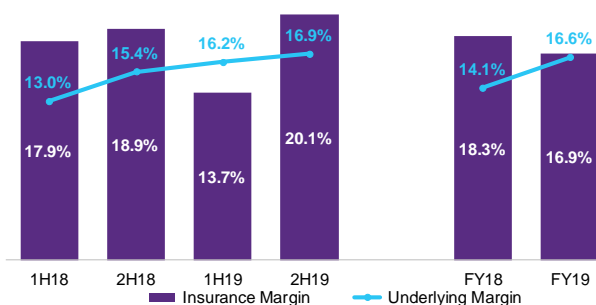
#### EXPENSE RATIOS



#### COMBINED RATIO



#### INSURANCE MARGIN



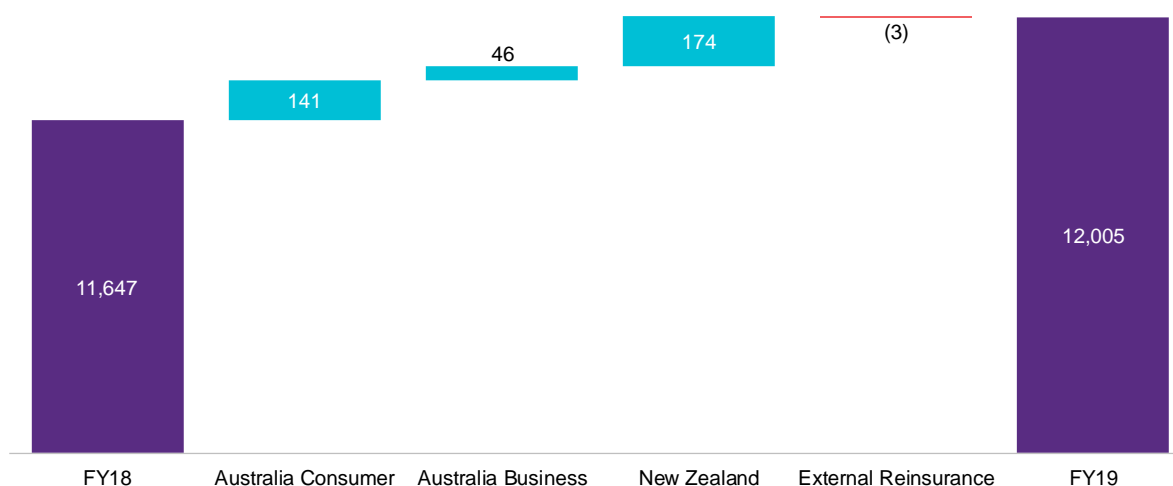
### PREMIUMS

Reported GWP in FY19 was \$12,005m, an increase of 3.1% and in line with the 2-4% guidance provided at the beginning of the financial year. This comprised:

- Growth of 2.0% in Australia (to \$9,331m), comprising 2.3% in Consumer and 1.6% in Business; and
- Growth of 7.0% in New Zealand (to \$2,660m), aided by a favourable foreign exchange translation effect of ~180bps.

GWP growth of 3.1%, in line with guidance

#### GWP – FY19 VS. FY18 (A\$m)



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## 5. GROUP RESULTS

The main driver of GWP growth was increased rate across short tail personal and commercial line products, in both Australia and New Zealand. Other features of the FY19 outcome were:

- Relatively flat short tail personal lines volumes, with slightly lower home volumes countered by modest growth in motor, notably in New Zealand;
- Lower overall commercial volumes, in Australia and New Zealand, reflecting remediation activities and strict adherence to underwriting disciplines;
- Reduced CTP pricing, following scheme reform effects in NSW, partially offset by higher volumes;
- The absence of a full year's GWP contribution from recently divested or exited activities in Australia (~\$70m effect); and
- A favourable foreign exchange translation effect in respect of New Zealand.

Removing NSW CTP pricing, business divestment and foreign exchange translation influences, like-for-like GWP growth in FY19 was close to 4%.

### INSURANCE MARGIN

IAG's underlying insurance margin improved to 16.6%, compared to 14.1% in FY18. Approximately 125bps of the uplift reflected a full year's contribution from the combined 12.5% quota share agreements which commenced on 1 January 2018.

The balance of the net improvement against FY18 was derived from a range of factors, including:

- Rate-driven growth in earned premium, across short tail personal and commercial classes, broadly matching or in excess of average claim cost increases;
- A return to more normal large loss experience in Australian commercial property, after the heightened experience of FY17 and FY18;
- Approximately \$90m of net benefits (pre-quota share) from the group-wide optimisation program, broadly in line with plan;
- Lower NSW CTP profitability, predominantly in 1H19, reflecting a full year of capped profitability under the new scheme which came into force from 1 December 2017; and
- The absorption of approximately \$20m of additional regulatory and compliance costs (pre-quota share).

Underlying insurance margin is 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.

IAG's reported insurance margin of 16.9% was close to the mid-point of the 16-18% guidance range provided at the outset of the financial year. This was lower than FY18 (18.3%), and housed the net effect of:

- A favourable quota share effect of ~125bps from a full year of the combined 12.5% agreements;
- A net natural peril claim experience which modestly exceeded allowance by \$19m, compared to a shortfall against allowance of \$84m in FY18;
- Lower net prior period reserve releases of \$126m (FY18: \$305m), which represented 1.7% of NEP (FY18: 4.0%); and
- A modestly adverse movement in credit spread impact, from a favourable contribution of \$14m in FY18 to a negative input of \$6m in FY19.

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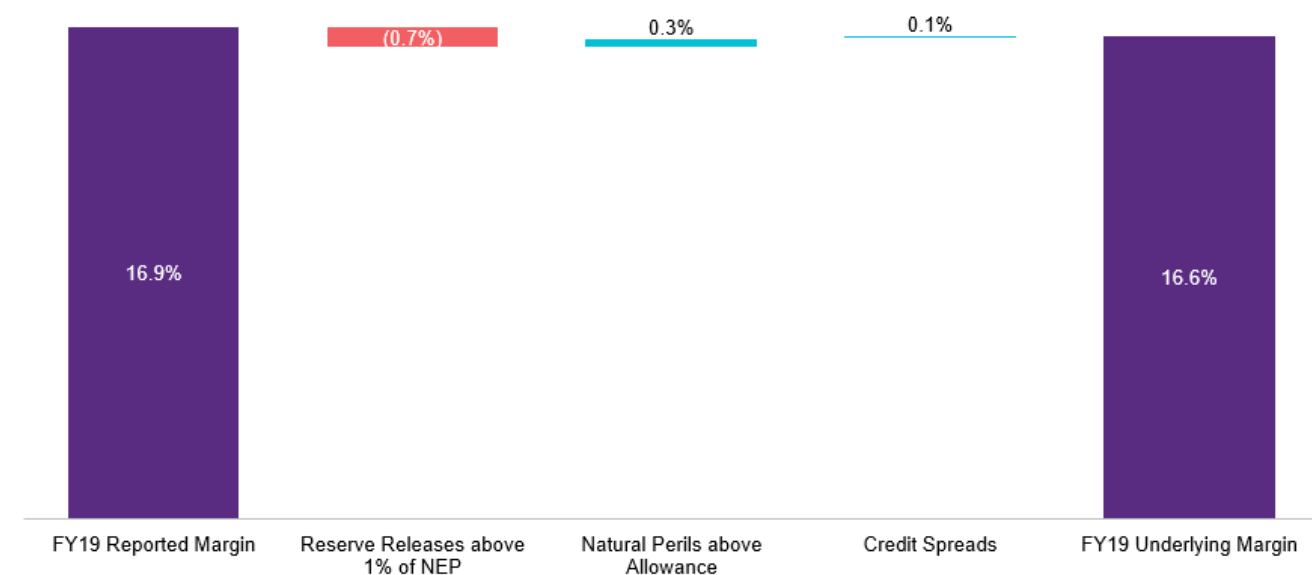
Improved underlying insurance margin of 16.6%

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Reported margin of 16.9%, near mid-point of 16-18% guidance range

## 5. GROUP RESULTS

### GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



INSURANCE MARGIN IMPACTS Continuing Business	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Reserve releases	122	183	83	43	305	126
Natural perils	(262)	(279)	(414)	(213)	(541)	(627)
Natural peril allowance	339	286	304	304	625	608
Credit spreads	47	(33)	(24)	18	14	(6)
Reserve releases	2.9%	5.2%	2.3%	1.2%	4.0%	1.7%
Natural perils	(6.3%)	(8.0%)	(11.5%)	(5.9%)	(7.1%)	(8.7%)
Natural peril allowance	8.1%	8.2%	8.4%	8.4%	8.1%	8.4%
Credit spreads	1.1%	(0.9%)	(0.7%)	0.5%	0.2%	(0.1%)

### REINSURANCE EXPENSE

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

The FY19 reinsurance expense of \$4,704m was 22% higher than FY18, primarily owing to a full year's effect of the combined 12.5% quota share arrangements entered into from 1 January 2018.

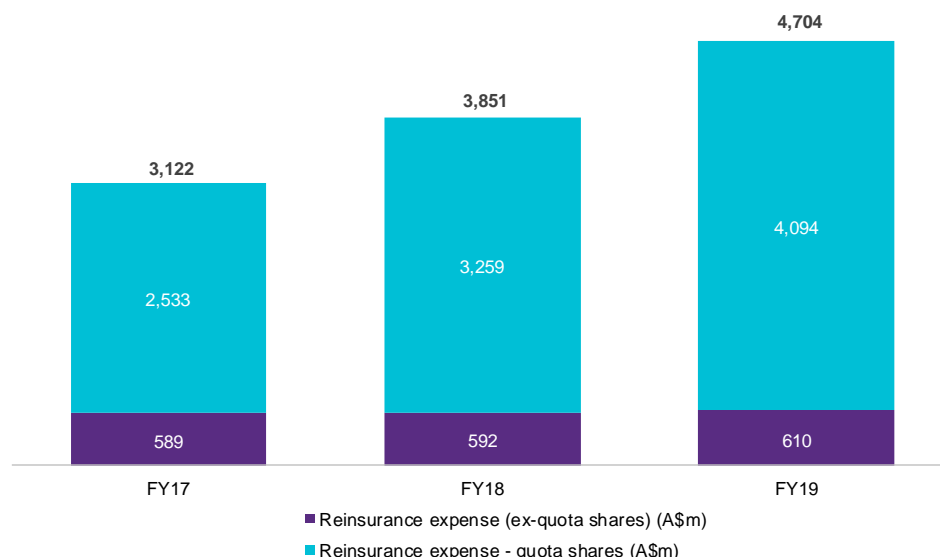
The non-quota share reinsurance expense increased by 3%, and included the effect of:

- Reduced placement of cover to reflect increased quota share;
- Modest overall aggregate growth;
- Increased gross cover, including:
  - The FY19 stop-loss protection which attached directly from the FY19 natural perils allowance; and
  - The extra \$1bn of gross protection in the calendar 2019 catastrophe program;
- Higher renewal costs attached to commercial line per risk excess of loss cover in Australia; and
- Broadly similar catastrophe cover rates.

Small increase in non-quota share reinsurance expense

## 5. GROUP RESULTS

### REINSURANCE EXPENSE



### CLAIMS

A higher immunised loss ratio of 62.0% (FY18: 60.5%) contained:

- Net natural peril claim costs which were \$86m higher than those incurred in FY18;
- A \$179m reduction in contribution from net prior period reserve releases; and
- An improved underlying claims performance, including optimisation-related benefits and lower large losses in Australian commercial property.

The FY19 reported loss ratio increased to 63.8% (FY18: 60.2%). In addition to reserve release and peril movements, this included an unfavourable risk free discount rate adjustment of \$129m (after inclusion of foreign exchange effects), compared to a favourable effect of \$26m in FY18.

Excluding natural peril, reserve release and discount rate adjustment effects, the underlying claims ratio improved from 57.4% in FY18 to 55.0% in FY19.

### Reserve Releases

The net claims expense in FY19 included \$126m of prior period reserve releases, representing 1.7% of NEP (FY18: 4.0%) and broadly in line with the guidance provided of 'around 2% of NEP'. The reduced contribution compared to FY18 reflects the net effect of:

- Lower net releases from long tail CTP in Australia;
- A reduced contribution from Australian commercial classes, where long tail releases were largely negated by strengthening for past weather events, notably in 1H19; and
- The absence of net reserve strengthening in New Zealand, which in FY18 amounted to \$39m and was derived primarily from a mixture of professional indemnity and prior year storm cost development factors.

Higher loss ratio driven by unfavourable movement in net natural peril claim experience and lower reserve releases

Reserve releases of 1.7% of NEP

RESERVE RELEASES	1H18	2H18	1H19	2H19	FY18	FY19
Continuing Business	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	122	183	83	43	305	126
Impact on insurance margin	2.9%	5.2%	2.3%	1.2%	4.0%	1.7%

## 5. GROUP RESULTS

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.

### Natural Perils

Net natural peril claim costs in FY19 were \$627m, and exceeded allowance by \$19m. This was after full use of the FY19 stop-loss catastrophe reinsurance cover, which provided \$101m of protection in 2H19.

The FY19 net perils outcome differed from that of FY18, which was \$84m below allowance. The net effect of natural perils (after allowance) was an unfavourable margin movement of ~130bps compared to FY18.

Net natural peril claim costs \$19m above allowance

NATURAL PERILS Continuing Business	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Net natural peril claim costs	(262)	(279)	(414)	(213)	(541)	(627)
Natural peril allowance	339	286	304	304	625	608
<b>Impact on insurance margin</b>	<b>77</b>	<b>7</b>	<b>(110)</b>	<b>91</b>	<b>84</b>	<b>(19)</b>
<b>Impact on insurance margin</b>	<b>1.8%</b>	<b>0.2%</b>	<b>(3.1%)</b>	<b>2.5%</b>	<b>1.0%</b>	<b>(0.3%)</b>

There were four significant natural peril events during the year:

- The east coast low that affected the Sydney region in November 2018;
- The Sydney hailstorm in December 2018;
- The north Queensland (Townsville) flooding in January 2019; and
- The severe thunderstorm activity in Sydney and other parts of NSW and Queensland in March 2019.

Modest reinsurance recoveries occurred under the calendar 2018 aggregate cover in 1H19. By comparison, the calendar 2017 aggregate cover provided approximately \$120m of reinsurance protection in 1H18.

Attritional peril events (below \$15m in size) in FY19 amounted to \$280m, compared to \$357m in FY18.

FY19 NATURAL PERIL COSTS BY EVENT	A\$m
Tansey tornado / South Burnett hailstorm (October 2018)	32
East coast low (November 2018)	18
Southern low (December 2018)	79
NSW (Sydney) and Queensland hailstorms (December 2018)*	139
North Queensland (Townsville) flooding (January 2019)	87
Sydney severe thunderstorms and flash floods (February 2019)	19
Sydney and NSW / Queensland severe thunderstorms (March 2019)	74
Other events (<\$15m)	280
FY19 stop-loss perils cover (\$101m xs \$608m)	(101)
<b>Total</b>	<b>627</b>

\* Net of reinsurance recoveries

IAG has in place an aggregate catastrophe cover which operates on a calendar year basis. The 2019 cover provides gross protection of \$475m excess of \$375m (\$321m excess of \$253m, post-quota share), with qualifying events capped at \$225m excess of \$25m per event (\$152m excess of \$17m, post-quota share).

At 30 June 2019, approximately \$200m of the gross deductible had been eroded (\$135m post-quota share), leaving \$175m (\$118m post-quota share) of further erosion required before recoveries can occur.



## 5. GROUP RESULTS

### EXPENSES

Total net operating expenses (commission and underwriting) were \$1,716m, compared to \$1,877m in FY18.

On a pre-quota share and levies basis, underwriting expense levels were lower than FY18, reflecting the net effect of:

- Benefits from IAG's optimisation program; and
- An approximately \$20m uplift in regulatory and compliance costs, including those relating to the Royal Commission, compared to FY18.

The reported expense ratio improved to 23.7% (FY18: 24.5%), while on an ex-levies basis the administration ratio was 11.8% (FY18: 13.2%).

The commission ratio increased slightly to 9.3% (FY18: 9.2%), with a higher 2H19 ratio of 9.7% including the influence of a revised accounting treatment which has reclassified approximately \$15m from underwriting expense to commission expense in the 2H19 and FY19 results. This relates to fees paid to agents to distribute NRMA Insurance products in NSW. Prior period expenses have not been restated, on the grounds of materiality.

Improved expense ratio, as net optimisation benefits start to be realised

EXPENSES	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Gross underwriting expense ex levies	772	800	781	745	1,572	1,526
Levies	121	94	164	143	215	307
<b>Total gross underwriting expenses</b>	<b>893</b>	<b>894</b>	<b>945</b>	<b>888</b>	<b>1,787</b>	<b>1,833</b>
Gross commission expense	491	479	487	524	970	1,011
<b>Total gross expenses</b>	<b>1,384</b>	<b>1,373</b>	<b>1,432</b>	<b>1,412</b>	<b>2,757</b>	<b>2,844</b>
Reinsurance commission revenue	(344)	(536)	(573)	(555)	(880)	(1,128)
<b>Total net expenses</b>	<b>1,040</b>	<b>837</b>	<b>859</b>	<b>857</b>	<b>1,877</b>	<b>1,716</b>

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. FY19 is the first financial year in which a significant TEPLA has arisen, of in excess of \$60m. 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

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

IAG's optimisation program has continued to progress in line with plan, with FY19 including a net reduction in gross operating costs (excluding commission and levies) of around \$90m, 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.

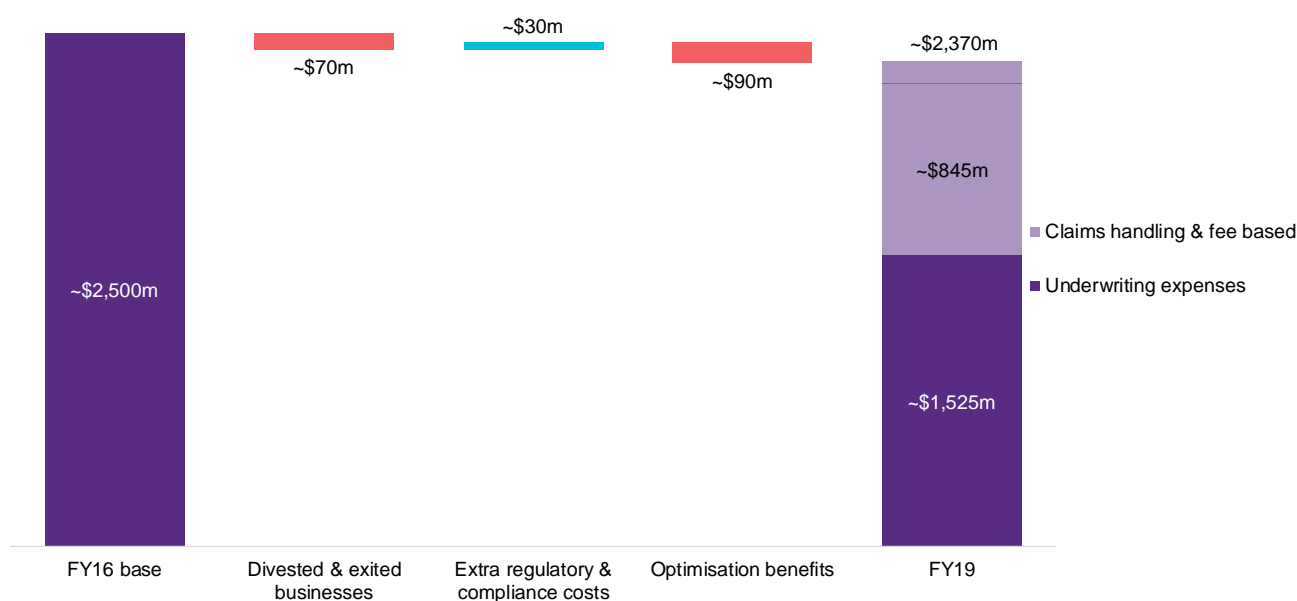
Optimisation broadly tracking to plan – ~\$90m reduction in gross costs in FY19

## 5. GROUP RESULTS

During FY19, significant optimisation program actions included:

- Near-completion of the consolidation of all IAG's claims platforms onto a single version of Guidewire's ClaimCenter; and
- The transition of operational partnering activities to business as usual, with capability embedded to drive performance and continuous improvement.

### GROSS OPERATING COSTS



### INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY19 was \$321m, compared to \$230m in FY18. This outcome includes:

- The impact of reduced average investment assets, primarily as a consequence of the additional quota shares which commenced on 1 January 2018;
- Significant downwards movement in the yield curve, resulting in an unrealised capital gain of nearly \$130m at 30 June 2019, compared to a small unrealised loss at the end of FY18;
- A negative effect of \$6m from the widening of credit spreads, compared to a gain of \$14m in FY18 from the narrowing of spreads; and
- A minor favourable foreign exchange impact, primarily from the hedge associated with earthquake-related reinsurance recoveries.

After adjusting for the factors outlined above, the average yield achieved in FY19 was lower than that of FY18.

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

**Lower average yield on technical reserves**

## 5. GROUP RESULTS

### NET CORPORATE EXPENSE

Net corporate expense in FY19 amounted to a loss of \$4m. This included the net effect of:

- A modest profit on sale of Australia's interest in authorised representative brokers, Community Broker Network, which was sold with effect from early October 2018;
- A small loss on sale of Accident and Health International (A&HI), the specialist accident, medical and travel underwriting agency, which was completed at the end of June 2019; and
- Start-up costs associated with motor repair model initiatives. These include a rapid repair joint venture with the Royal Automobile Club of Victoria (RACV) and two repair partners, spanning an initial six sites in metropolitan centres.

### FEE BASED INCOME

Fee based income in Australia comprises contributions from three main sources:

- IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government;
- Data and venture-related businesses, including Ambiat and the innovation hubs at the Firemark Labs sites in Sydney and Singapore; and
- Investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives.

Total net income from fee based operations in FY19 was a loss of \$9m, compared to a loss of \$12m in FY18. The reduced loss housed:

- An improved performance from the workers' compensation business, including the benefit of FY18's withdrawal from the unprofitable NSW business;
- Similar-sized losses from the combined Ambiat and Firemark Labs operations; and
- Initial costs associated with mobility initiatives.

Lower fee based loss following exit from NSW workers' compensation

### SHARE OF ASSOCIATES

The combined contribution from associates was a profit of \$45m (FY18: \$34m), largely derived from IAG's interests in Malaysia and India. IAG continues to assess future options for these Asian assets, which had a combined carrying value of nearly \$630m at 30 June 2019.

Share of associates largely from Malaysia and India

	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
<b>SHARE OF PROFITS FROM ASSOCIATES</b>						
Malaysia	13	27	17	21	40	38
India	11	(1)	13	14	10	27
Asia support costs	(7)	(11)	(12)	(9)	(18)	(21)
Other	2	-	1	-	2	1
<b>Total share of profits from associates</b>	<b>19</b>	<b>15</b>	<b>19</b>	<b>26</b>	<b>34</b>	<b>45</b>

#### Malaysia

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.

Strong Malaysian margin despite lower reserve releases

## 5. GROUP RESULTS

<b>AMGENERAL</b>						
<b>Financial Performance</b>	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY18</b>	<b>FY19</b>
	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>
<b>Gross written premium</b>	<b>216</b>	<b>250</b>	<b>252</b>	<b>271</b>	<b>466</b>	<b>523</b>
Gross earned premium	231	245	252	263	476	515
Reinsurance expense	(18)	(22)	(21)	(24)	(40)	(45)
<b>Net earned premium</b>	<b>213</b>	<b>223</b>	<b>231</b>	<b>239</b>	<b>436</b>	<b>470</b>
Net claims expense	(134)	(105)	(135)	(145)	(239)	(280)
Commission expense	(24)	(22)	(27)	(27)	(46)	(54)
Underwriting expense	(50)	(52)	(55)	(59)	(102)	(114)
<b>Underwriting profit</b>	<b>5</b>	<b>44</b>	<b>14</b>	<b>8</b>	<b>49</b>	<b>22</b>
Investment income on technical reserves	17	17	20	26	34	46
<b>Insurance profit</b>	<b>22</b>	<b>61</b>	<b>34</b>	<b>34</b>	<b>83</b>	<b>68</b>
<b>Net profit after tax</b>	<b>26</b>	<b>56</b>	<b>34</b>	<b>43</b>	<b>82</b>	<b>77</b>
<b>Net profit after tax - IAG's share (49%)</b>	<b>13</b>	<b>27</b>	<b>17</b>	<b>21</b>	<b>40</b>	<b>38</b>
<b>Insurance Ratios</b>	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY18</b>	<b>FY19</b>
Loss ratio	63.2%	47.1%	58.4%	60.7%	54.8%	59.6%
Expense ratio	34.5%	33.2%	35.5%	36.0%	34.0%	35.8%
Commission ratio	11.1%	9.9%	11.7%	11.3%	10.6%	11.5%
Administration ratio	23.4%	23.3%	23.8%	24.7%	23.4%	24.3%
Combined ratio	97.7%	80.3%	93.9%	96.7%	88.8%	95.4%
Insurance margin	10.4%	27.4%	14.7%	14.2%	19.0%	14.5%

AmGeneral's GWP grew by 12.2% in FY19, and 5.0% in local currency terms. This growth was driven by higher motor volumes in AmGeneral's core agency channel.

AmGeneral's FY19 insurance margin of 14.5% was lower than FY18 (19.0%), included the combination of:

- Increased net earned premium from improved retention and higher rates;
- Lower bodily injury-related prior period reserve releases; and
- Higher administration expenses from one-off changes to service tax regulations.

IAG received approximately \$80m of dividends from AmGeneral in FY19.

### India

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. SBI General is now the eleventh largest general insurer in India, with an overall market share of 3.1% as at 30 June 2019.

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.

In June 2019, IAG confirmed discussions had been held with external parties regarding a potential sale of all or part of its 26% interest in SBI General. IAG is in advanced discussions with a number of bidders, which may result in one or more transactions being completed.

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.

**India continues to generate strong GWP growth**

## 5. GROUP RESULTS

<b>SBI GENERAL Financial Performance</b>	<b>1H18 A\$m</b>	<b>2H18 A\$m</b>	<b>1H19 A\$m</b>	<b>2H19 A\$m</b>	<b>FY18 A\$m</b>	<b>FY19 A\$m</b>
<b>Gross written premium</b>	<b>369</b>	<b>404</b>	<b>453</b>	<b>536</b>	<b>773</b>	<b>989</b>
Gross earned premium	443	355	447	507	798	954
Reinsurance expense	(253)	(143)	(211)	(255)	(396)	(466)
<b>Net earned premium</b>	<b>190</b>	<b>212</b>	<b>236</b>	<b>252</b>	<b>402</b>	<b>488</b>
Net claims expense	(137)	(162)	(176)	(174)	(299)	(350)
Commission and underwriting expenses	(32)	(60)	(44)	(77)	(92)	(121)
<b>Underwriting profit/(loss)</b>	<b>21</b>	<b>(10)</b>	<b>16</b>	<b>1</b>	<b>11</b>	<b>17</b>
Investment income on technical reserves	12	11	33	53	23	86
<b>Insurance profit</b>	<b>33</b>	<b>1</b>	<b>49</b>	<b>54</b>	<b>34</b>	<b>103</b>
<b>Net profit/(loss) after tax</b>	<b>41</b>	<b>(3)</b>	<b>52</b>	<b>52</b>	<b>38</b>	<b>104</b>
<b>Net profit/(loss) after tax - IAG's share (26%)</b>	<b>11</b>	<b>(1)</b>	<b>13</b>	<b>14</b>	<b>10</b>	<b>27</b>
<b>Insurance Ratios</b>	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY18</b>	<b>FY19</b>
Loss ratio	72.3%	76.4%	74.6%	69.0%	74.4%	71.7%
Expense ratio	16.9%	28.3%	18.6%	30.6%	22.9%	24.8%
Combined ratio	89.2%	104.7%	93.2%	99.6%	97.3%	96.5%
Insurance margin	17.4%	0.5%	20.8%	21.4%	8.5%	21.1%

SBI General continues to grow strongly, generating FY19 GWP equivalent to \$989m, an increase of 28% over FY18. Local currency GWP growth was of a similar magnitude, driven by continued growth in the bancassurance channel and higher crop insurance volumes.

SBI General reported an insurance profit of \$103m in FY19 (FY18: \$34m). This higher outcome reflected the combination of:

- A favourable effect from exchange commission recognition in the long term home portfolio;
- Higher investment income;
- A lower impact from catastrophe-related claims; and
- Further improvement in the expense ratio (excluding exchange commission) generated by the benefits of increased scale.

SBI General's net profit after tax was \$104m (FY18: \$38m), of which IAG's share is approximately \$27m. During FY19 SBI General paid its first dividend since commencing operations in 2010. IAG's share of that dividend was approximately \$1m.

### INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a profit of \$227m (FY18: \$165m), following a strong rebound in performance in 2H19. The full year's outcome embraced:

- A strong performance from equity markets, heavily skewed to 2H19;
- A strong return from alternative investments;
- Slightly higher average assets than FY18; and
- An average asset mix similar to FY18.

The S&P ASX200 Accumulation Index in Australia delivered a positive return of 11.6% in FY19 (FY18: +13.0%), while the MSCI World Total Return Index (AUD Hedged) advanced 6.3% (FY18: +11.5%).

At 30 June 2019, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was nearly 58%, slightly higher than the allocation at the end of FY18.

**Shareholders' funds  
income buoyed by strong  
equity market returns in  
2H19**

## 5. GROUP RESULTS

### TAX EXPENSE

IAG reported a tax expense of \$363m in FY19 (FY18: \$384m), representing an effective tax rate (pre-amortisation and impairment) of 26.1% (FY18: 25.5%).

The FY19 effective tax rate reconciles to the Australian corporate rate of 30% after taking into consideration:

- 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

The \$98m non-controlling interests in IAG's profit compares to \$79m in FY18. 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 FY18, with an 18% increase in insurance profit supplemented by higher shareholders' funds income. IMA's net profit increased by over 23%.

### DISCONTINUED OPERATIONS

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 designated 'discontinued operations'.

The combined profit from discontinued operations was \$205m, compared to a loss of \$24m in FY18. The FY19 result includes a gain of over \$200m on the sale of the Thailand operations, completed at the end of August 2018. It is IAG's revised expectation that the agreed sales of operations in Indonesia and Vietnam will complete in early FY20.

### EARNINGS PER SHARE

Diluted cash earnings per share (cash EPS) in FY19 was 38.83 cents per share (cps), a decrease of 9.2% compared to FY18, and excludes the profit on sale of the Thailand operations. Reported earnings per share (EPS) in FY19 was 46.26cps, which was over 18% higher than FY18, and on a diluted basis was 44.58cps (FY18: 38.30cps).

FY19 basic EPS was calculated on lower weighted average shares on issue (excluding treasury shares) of 2,325.6m shares (FY18: ~2,363m), with the reduction reflecting the effect of the share consolidation completed on 5 November 2018. Diluted EPS was based on 2,518.5m shares after allowance for potential equity issuance from hybrid debt instrument conversion (FY18: ~2,510m).

	Shares (m)
<b>ORDINARY ISSUED CAPITAL</b>	
Balance at the beginning of the financial year	2,367.5
Share consolidation - November 2018	(56.5)
<b>Balance at the end of the financial year</b>	<b>2,311.0</b>
Average weighted shares on issue	2,330.7
Less: Treasury shares held in trust	(5.1)
<b>Average weighted shares on issue - basic EPS</b>	<b>2,325.6</b>
Add: Treasury shares held in trust	5.1
Add: Potential dilutionary issues from hybrid debt instruments	187.8
<b>Average weighted potential shares on issue - diluted EPS</b>	<b>2,518.5</b>

Effective tax rate of 26.1%

Non-controlling interests reflects RACV's share of IMA result

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

9.2% decrease in diluted cash EPS to 38.83 cents

## 5. GROUP RESULTS

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.

<b>CASH EARNINGS</b>	<b>FY19 A\$m</b>
<b>Net profit after tax</b>	<b>1,076</b>
Acquired intangible amortisation and impairment	57
Unusual items:	
- Corporate expenses	4
- Tax effect on corporate expenses	(1)
- Gain on sale of Thailand	(208)
- Loss of diversification benefit on sale of Thailand	3
<b>Cash earnings</b>	<b>931</b>
<b>Dividend payable</b>	<b>739</b>
<b>Cash payout ratio</b>	<b>79.4%</b>

### DIVIDEND

The Board has determined to pay a final dividend of 20.0 cents per share, franked to 70% (2H18: 20.0cps, fully franked). The final dividend is payable on 30 September 2019 to shareholders registered as at 5pm Australian Eastern Standard Time (AEST) on 20 August 2019.

This brings the full year dividend to 32.0 cents per share, which equates to a payout ratio of 79.4% of cash earnings, in line with IAG's stated dividend policy to distribute 60-80% of cash earnings in any full financial year.

In addition, during 1H19 IAG paid a special dividend of 5.5 cents per share 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.

In August 2018 IAG advised that, from July 2019, it would not be in a position to guarantee fully franked dividend payments. This reflects:

- The move to a higher payout policy in recent years;
- A sequence of capital management activities being conducted, often utilising IAG's franking capacity; and
- A significant portion of the company's earnings being derived from New Zealand, where no franking credit generation attaches.

As at 30 June 2019, and prior to allowance for payment of the final dividend, IAG's franking balance was \$93m, including its 70% entitlement to franking held by IMA.

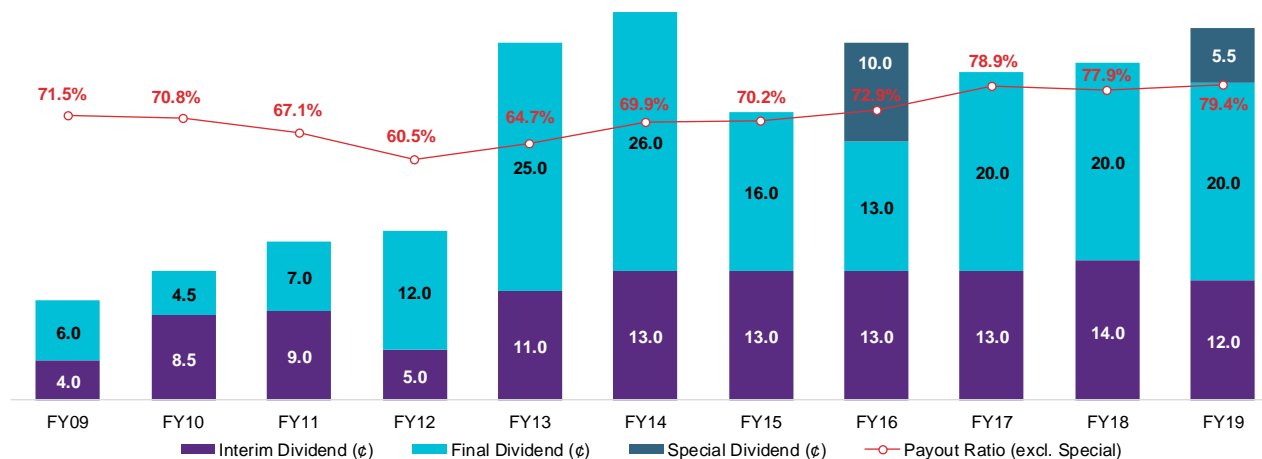
The dividend reinvestment plan (DRP) will operate for the final dividend for shareholders registered for the DRP as at 5pm AEST on 21 August 2019. The issue price per share will be the Average Market Price as defined in the DRP terms, with no discount for participants. Shares allocated under the DRP are purchased on-market. DRP information is available at [www.iag.com.au/shareholder-centre/dividends/reinvestment](http://www.iag.com.au/shareholder-centre/dividends/reinvestment).

**Final dividend of 20 cents, franked to 70% – full year payout ratio of >79% of cash earnings**



## 5. GROUP RESULTS

### DIVIDEND HISTORY – FY09-FY19



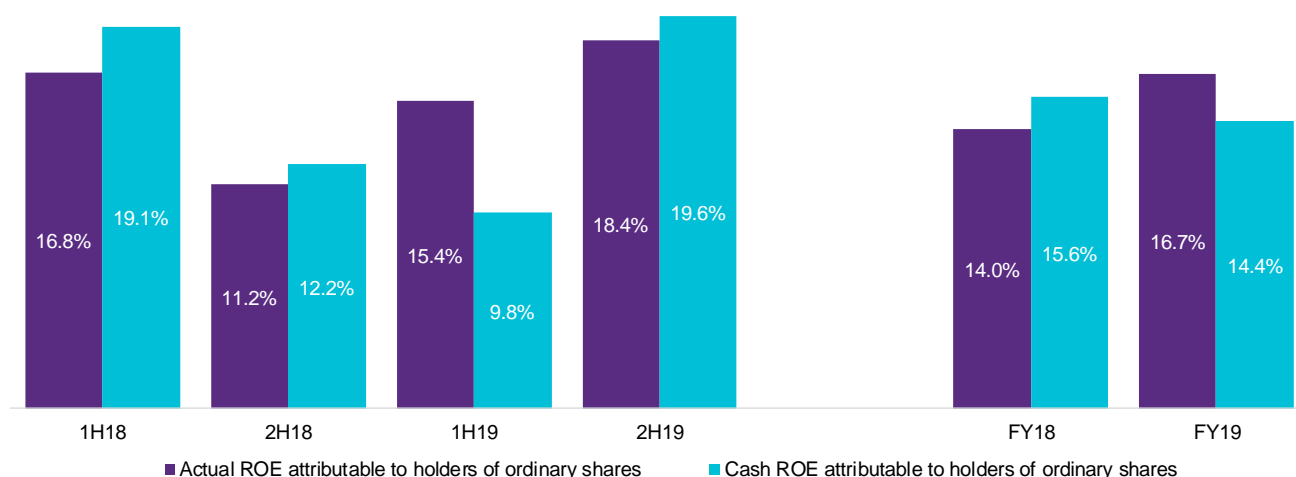
### RETURN ON EQUITY

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

IAG's current long term cost of capital is approximately 10%, equating to a cash ROE target of approximately 15%. In FY19, IAG reported a cash ROE of 14.4% (FY18: 15.6%).

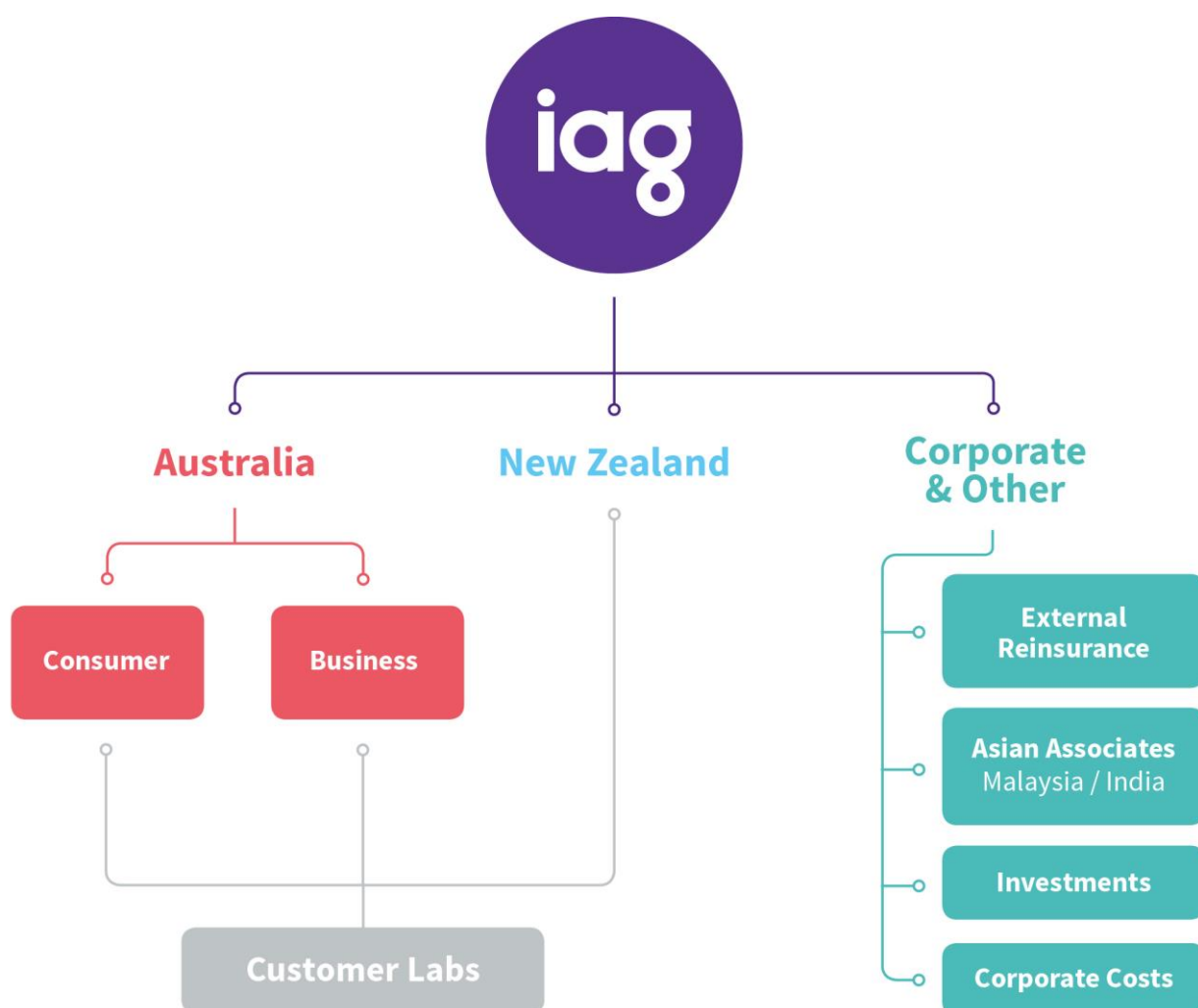
Cash ROE of 14.4%

### RETURN ON EQUITY (ANNUALISED)





## 6. FY19 SEGMENT OVERVIEW



### FY19 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A\$m	Consumer A\$m	Business A\$m	New Zealand A\$m	Corporate & Other A\$m	Total Continuing A\$m
<b>Gross written premium</b>	<b>9,331</b>	<b>6,355</b>	<b>2,976</b>	<b>2,660</b>	<b>14</b>	<b>12,005</b>
Gross earned premium	9,323	6,326	2,997	2,604	15	11,942
Reinsurance expense	(3,671)	(2,510)	(1,161)	(1,023)	(10)	(4,704)
<b>Net earned premium</b>	<b>5,652</b>	<b>3,816</b>	<b>1,836</b>	<b>1,581</b>	<b>5</b>	<b>7,238</b>
Net claims expense	(3,764)	(2,589)	(1,175)	(846)	(9)	(4,619)
Commission expense	(490)	(232)	(258)	(179)	(6)	(675)
Underwriting expense	(838)	(500)	(338)	(202)	(1)	(1,041)
<b>Underwriting profit/(loss)</b>	<b>560</b>	<b>495</b>	<b>65</b>	<b>354</b>	<b>(11)</b>	<b>903</b>
Investment income on technical reserves	282	167	115	36	3	321
<b>Insurance profit/(loss)</b>	<b>842</b>	<b>662</b>	<b>180</b>	<b>390</b>	<b>(8)</b>	<b>1,224</b>
Profit/(loss) from fee based business	(1)	(4)	3	-	(8)	(9)
Share of profit from associates	2	-	2	-	43	45
<b>Total divisional results</b>	<b>843</b>	<b>658</b>	<b>185</b>	<b>390</b>	<b>27</b>	<b>1,260</b>
<b>Insurance Ratios</b>						
Loss ratio	66.6%	67.8%	64.0%	53.5%		63.8%
Expense ratio	23.5%	19.2%	32.5%	24.1%		23.7%
Commission ratio	8.7%	6.1%	14.1%	11.3%		9.3%
Administration ratio	14.8%	13.1%	18.4%	12.8%		14.4%
Combined ratio	90.1%	87.0%	96.5%	77.6%		87.5%
Insurance margin	14.9%	17.3%	9.8%	24.7%		16.9%
Underlying insurance margin	15.5%	17.5%	11.1%	19.5%		16.6%

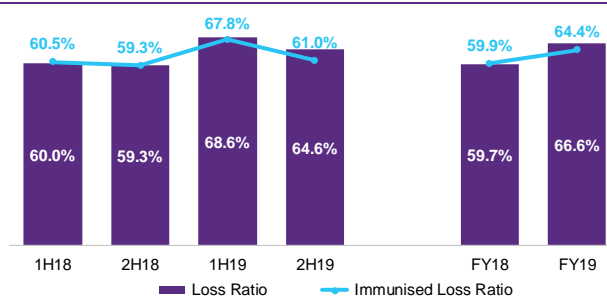
# 7. AUSTRALIA

## FINANCIAL PERFORMANCE

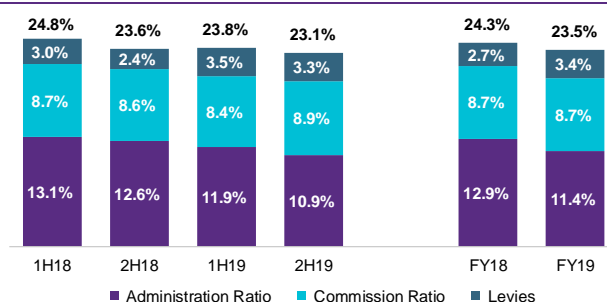
AUSTRALIA	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
<b>Gross written premium</b>	<b>4,453</b>	<b>4,691</b>	<b>4,606</b>	<b>4,725</b>	<b>9,144</b>	<b>9,331</b>
Gross earned premium	4,612	4,519	4,698	4,625	9,131	9,323
Reinsurance expense	(1,285)	(1,762)	(1,864)	(1,807)	(3,047)	(3,671)
<b>Net earned premium</b>	<b>3,327</b>	<b>2,757</b>	<b>2,834</b>	<b>2,818</b>	<b>6,084</b>	<b>5,652</b>
Net claims expense	(1,995)	(1,636)	(1,943)	(1,821)	(3,631)	(3,764)
Commission expense	(291)	(238)	(239)	(251)	(529)	(490)
Underwriting expense	(536)	(413)	(437)	(401)	(949)	(838)
<b>Underwriting profit</b>	<b>505</b>	<b>470</b>	<b>215</b>	<b>345</b>	<b>975</b>	<b>560</b>
Investment income on technical reserves	120	95	89	193	215	282
<b>Insurance profit</b>	<b>625</b>	<b>565</b>	<b>304</b>	<b>538</b>	<b>1,190</b>	<b>842</b>
Profit/(loss) from fee based business	5	(10)	9	(10)	(5)	(1)
Share of profit/(loss) from associates	2	-	1	1	2	2
<b>Total divisional result</b>	<b>632</b>	<b>555</b>	<b>314</b>	<b>529</b>	<b>1,187</b>	<b>843</b>
<b>Insurance Ratios</b>	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY18</b>	<b>FY19</b>
Loss ratio	60.0%	59.3%	68.6%	64.6%	59.7%	66.6%
Immunised loss ratio	60.5%	59.3%	67.8%	61.0%	59.9%	64.4%
Expense ratio	24.8%	23.6%	23.8%	23.1%	24.3%	23.5%
Commission ratio	8.7%	8.6%	8.4%	8.9%	8.7%	8.7%
Administration ratio	16.1%	15.0%	15.4%	14.2%	15.6%	14.8%
Combined ratio	84.8%	82.9%	92.4%	87.7%	84.0%	90.1%
Immunised combined ratio	85.3%	82.9%	91.6%	84.1%	84.2%	87.9%
Reported insurance margin	18.8%	20.5%	10.7%	19.1%	19.6%	14.9%
Underlying insurance margin	11.4%	14.7%	14.8%	16.2%	12.9%	15.5%

## INSURANCE RATIOS

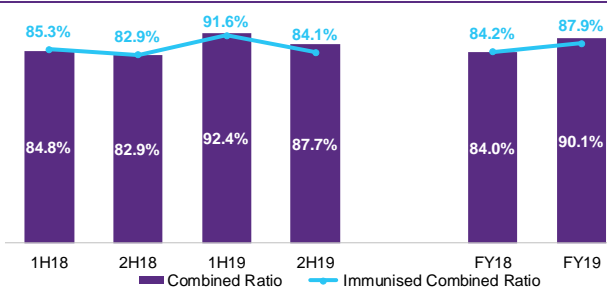
### LOSS RATIO



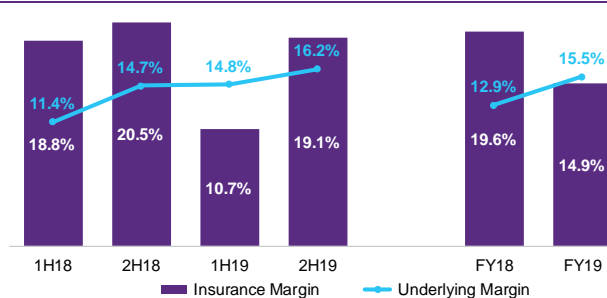
### EXPENSE RATIOS



### COMBINED RATIO



### INSURANCE MARGIN

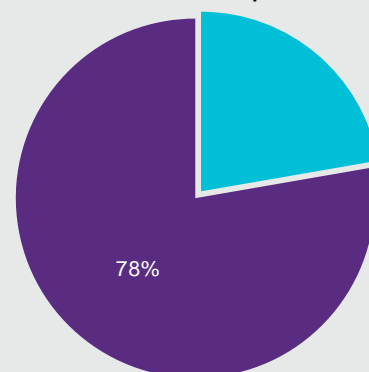


## 7. AUSTRALIA

### 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
- FY19 GWP growth of 2.0% 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), with some drag from full year of capped NSW CTP profitability
- Lower reported margin of 14.9% after adverse net natural peril claim cost outcome and significantly reduced reserve releases
- Modest GWP growth expected in FY20, inclusive of CTP rate reduction and business divestment effects
- Positive underlying margin outlook as rate increases earn through and further net cost-out benefits are realised

Australia - % Group GWP



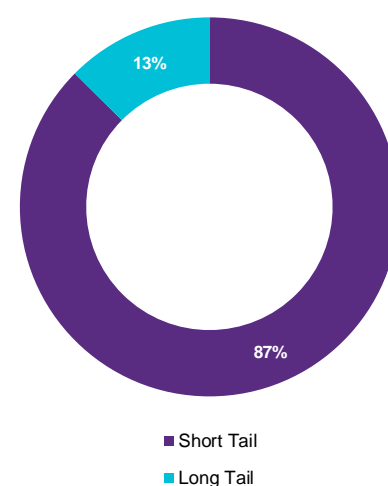
### PREMIUMS

Australia reported FY19 GWP of \$9,331m, an increase of 2.0% against FY18. The overall Australian GWP outcome includes:

- Largely rate-driven growth of 4.5% in short tail motor, broadly in line with claims inflation pressures;
- Home GWP growth of 2.2%, driven by rate with some offset from volume slippage;
- Average rate growth of approximately 6% across commercial lines, partially offset by lower volumes;
- An ~\$70m reduction in GWP from exiting smaller business areas, such as consumer credit, retail warranty and fleet leasing; and
- Slightly lower CTP GWP, where reduced pricing post NSW scheme reform was countered by volume gains.

### GWP growth of 2.0%

#### CONSUMER FY19 GWP - TAIL



### 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 2.3% to \$6,355m (FY18: \$6,214m).

CONSUMER GWP	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m	GWP Growth FY19 vs FY18
Motor	1,420	1,522	1,494	1,580	2,942	3,074	4.5%
Home	1,140	1,161	1,182	1,169	2,301	2,351	2.2%
Niche & Other	89	74	68	63	163	131	(19.6%)
<b>Total Short Tail</b>	<b>2,649</b>	<b>2,757</b>	<b>2,744</b>	<b>2,812</b>	<b>5,406</b>	<b>5,556</b>	<b>2.8%</b>
Long Tail	403	405	399	400	808	799	(1.1%)
<b>Total GWP</b>	<b>3,052</b>	<b>3,162</b>	<b>3,143</b>	<b>3,212</b>	<b>6,214</b>	<b>6,355</b>	<b>2.3%</b>

## 7. AUSTRALIA

Short tail personal lines GWP represented over 87% of Consumer GWP, with nearly 98% of this derived from motor and home classes. Compared to FY18, overall short tail GWP growth was 2.8%.

Motor GWP rose 4.5%, compared to FY18, with the majority of this derived from higher rates. The rise in prices was broadly commensurate with the increase in average claim costs, which resulted from the combination of:

- Underlying claims inflation, including higher car part costs;
- The continued upwards trend in total losses, a reflection of increasingly expensive repair costs; and
- Some alleviation from a modest improvement in frequency.

Total motor volumes were similar to FY18, comprising:

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

Home GWP increased by 2.2% compared to FY18, from the combination of:

- Average rate increases of around 5%, which broadly matched claims inflation;
- Lower volumes, notably in Western Australia and South Australia, and to a lesser extent NSW; and
- A greater than \$20m reduction associated with collection patterns for the Emergency Services Levy (ESL) in NSW, predominantly in 2H19.

Excluding ESL effects, growth in home GWP was of a similar magnitude across the year.

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

GWP from niche and other short tail lines, including boat, caravan, classic car and other specialty products, was nearly 20% lower than FY18. Behind this reduction were:

- A full year's absence of the retail warranty business (sold in January 2018); and
- The exit from consumer credit insurance sold through financial intermediaries, from the beginning of the financial year.

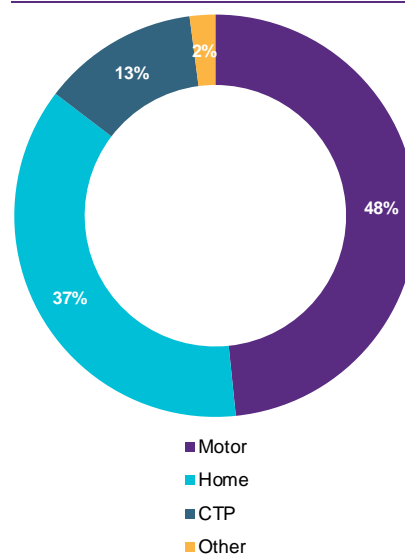
In Consumer, the main brands' online sales channel continued to register substantial growth throughout FY19, of over 16%, with NRMA Insurance conducting approximately 33% of new business sales and renewals online.

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

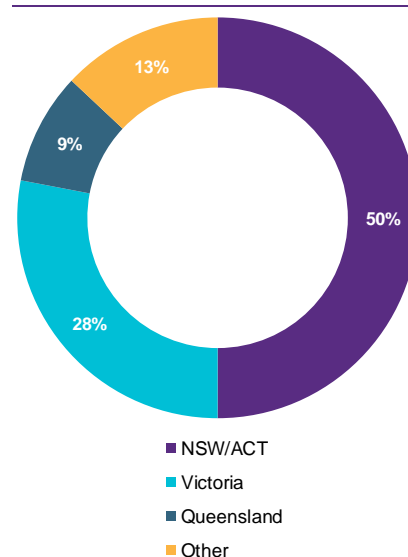
- Continued strong growth from IAL, via the intermediated channel in partnership with Steadfast; and
- Lower GWP from the SGIO and SGIC brands, in Western Australia and South Australia respectively, where more competitive conditions were experienced.

Motor GWP growth of 4.5%, primarily rate-driven

CONSUMER FY19 GWP - CLASS



CONSUMER FY19 SHORT TAIL GWP – STATE/TERRITORY



## 7. AUSTRALIA

Long tail (CTP) GWP was 1.1% lower than FY18. Operating in three states or territories, this reflects the combination of:

- A 1.7% decline in NSW, with a net reduction from post-scheme reform lower rates partially offset by volume growth of 1.4%. A further rate reduction of 3.6% was implemented in mid-March 2019. IAG's share of NSW CTP registrations (on a 12-month rolling average basis) was steady at 33.3% (FY18: 33.4%);
- A 0.8% reduction in GWP in the ACT, with lower rates offset by volume growth of 3%. Strong volume growth in 2H19 more than countered the 6% fall in volumes experienced in 1H19. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) increased to 58% (FY18: 55%); and
- An increase of nearly 4% in South Australia, 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 remained fixed at 20% until the end of FY19.

### 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 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m	GWP Growth FY19 vs FY18
Short Tail	1,032	1,027	1,038	1,027	2,059	2,065	0.3%
Long Tail	369	502	425	486	871	911	4.6%
<b>Total GWP</b>	<b>1,401</b>	<b>1,529</b>	<b>1,463</b>	<b>1,513</b>	<b>2,930</b>	<b>2,976</b>	<b>1.6%</b>

Business GWP increased by 1.6% to \$2,976m, compared to FY18 (\$2,930m). This comprised:

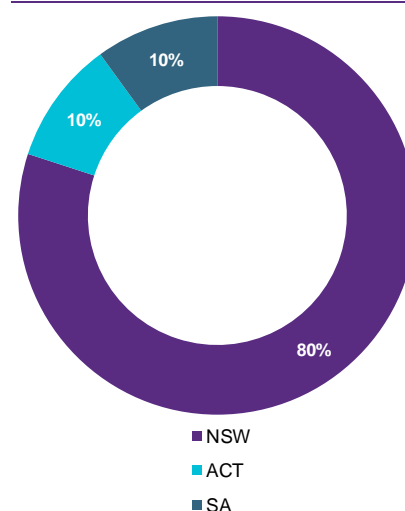
- A continuation of targeted rate increases across most business classes;
- Strong growth in workers' compensation GWP, essentially in 1H19;
- Lower volumes in packaged portfolios;
- Remediation activity serving to reduce GWP in property and fleet portfolios;
- Slightly lower retention levels in other key portfolios, which held up better than expected; and
- Lower new business volumes.

Average rate increases of around 6% were achieved during FY19, in line with expectations held at the beginning of the year. Rate movements varied by segment, with portfolios such as property and motor experiencing up to double digit increases, and commoditised packaged products achieving high single digit rate increases. Whilst these rate increases helped to ensure business is appropriately priced, they have adversely impacted volumes in some portfolios.

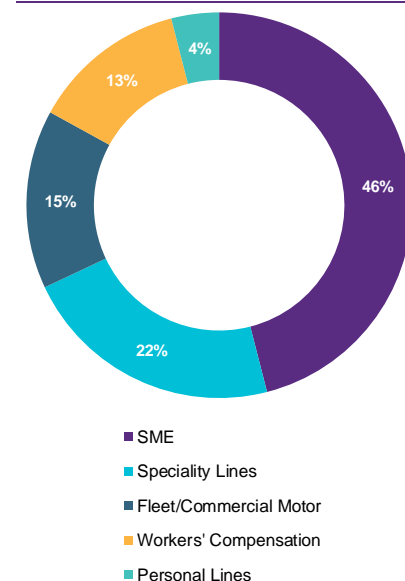
2H19 Business GWP was over 1% lower than the comparable period in FY18. This reflected:

- Similar average rate increases to those experienced in 1H19;
- Increased volume loss; and
- Flat workers' compensation GWP growth, in contrast to the near-20% increase posted in 1H19.

FY19 CTP GWP –  
STATE/TERRITORY



BUSINESS FY19 GWP - CLASS



## 7. AUSTRALIA

On a full year basis, ESL-related Business GWP was similar to FY18. A small increase in ESL-related GWP in 1H19 was matched by a similar-sized decrease in 2H19.

During FY19, volumes associated with the property portfolio were adversely impacted by the continued remediation activity that commenced in FY17. The focus to reduce volatility through managing capacity and better risk selection continued to deliver improved underlying profitability.

Workers' compensation GWP exceeded expectations, growing by 9%, with all of this achieved in 1H19. This reflected a combination of rate increases on renewing accounts and higher wage levels, buoyed by improved economic conditions in Western Australia.

Intermediated packaged GWP was 11% lower than FY18, as a result of decreased new business and retention volumes following recent price increases. Modest resumption of packaged product GWP growth is expected from FY20 onwards.

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

Underwriting agencies delivered GWP growth of 16% compared to FY18. This was primarily derived from NTI, the heavy haulage and marine insurance joint venture, which is performing strongly.

As part of its overall simplification process, in 2H19 IAG sold its interests in Bond & Credit Company and Accident and Health International (A&HI) to Tokio Marine, in two separate transactions. This will result in a reduction in agency-related GWP of over \$100m in FY20.

The direct portfolio continued to perform well, with GWP growth of nearly 6% including 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 27% of Business' GWP in FY19.

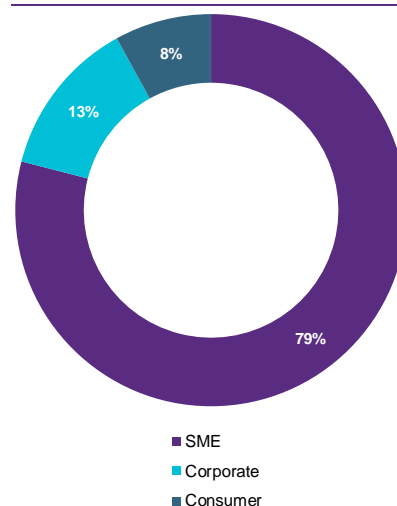
Long tail classes represented nearly 31% of Business' GWP in FY19 (FY18: ~30%). The increase predominantly reflects growth in the workers' compensation portfolio.

### Customer Initiatives

During FY19, 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 initiatives included:

- Further enhancement of SME customers' digital experience by:
  - Providing a personalised, flexible and efficient 'quote and buy' process, with multi-bundling options; and
  - Extending the specialised SME portal to CGU customers, providing them with digital payment and enhanced self-service capability;
- Continuation of the CGU 'More Time' campaign aimed at small business owners, entailing a specialised portal which incorporates 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;

BUSINESS FY19 GWP –  
MARKET SEGMENT



Ongoing customer-oriented initiatives, reflected in further industry recognition of key brands

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## 7. AUSTRALIA

- Simplification of flood, rainwater run-off and storm surge definitions, giving home, landlord and on-site caravan insurance customers greater clarity about what they are covered for and enabling a more consistent, efficient and effective claims experience, with improved claim settlement times; and
- Extending and scaling IAG's digital capability to provide customers with proactive, timely communication to update them on progress with motor repairs, across the repair partner network.

The Australian brands' strong levels of service and partnership capabilities 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); and
- In June 2019, CGU was voted 'Insurer of the Year' in the annual Brokers on Insurers survey by Insurance Business Magazine.

### REINSURANCE EXPENSE

Australia's reinsurance expense was \$3,671m, compared to \$3,047 in FY18. The greater than 20% increase was driven by a full year of quota share entitlements associated with the combined 12.5% whole-of-account agreements that commenced from 1 January 2018.

The non-quota share reinsurance expense was slightly higher than FY18, and included the effect of:

- Reduced placement of cover to reflect increased quota share;
- Lower commercial volumes;
- Increased gross cover, including Australia's share of:
  - The FY19 stop-loss protection which attached directly from the FY19 natural perils allowance; and
  - The extra \$1bn of gross protection in the calendar 2019 catastrophe program;
- Higher renewal costs attached to commercial line per risk excess of loss cover; and
- Broadly similar catastrophe cover rates.

### CLAIMS

Australia reported a higher immunised loss ratio of 64.4% in FY19 (FY18: 59.9%). This deterioration was driven by the combination of:

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

Some offset arose from:

- Earned rate increase effects;
- Increased use of IAG's preferred repairer network, countering higher average short tail claim costs, particularly in Consumer; and
- A more normal large loss level in Business property portfolios.

The reported loss ratio of 66.6% contained an adverse risk-free discount rate adjustment of \$123m, compared to a favourable effect of \$16m in FY18.

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Higher reinsurance expense reflects increased quota share effects

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



## 7. AUSTRALIA

### Reserve Releases

Prior period reserve releases of \$115m were materially lower than FY18 (\$344m), but were broadly in line with the expectations held at the beginning of the financial year. Reserve releases remained above long term expectations, at 2.0% of NEP (FY18: 5.7%).

Significantly lower reserve releases

The reduction in reserve releases compared to FY18 reflects:

- Lower CTP-related reserve releases;
- Similar net releases from long tail Business classes; and
- Some offset from reserve strengthening for past weather events, as reported in 1H19.

RESERVE RELEASES	1H18	2H18	1H19	2H19	FY18	FY19
Australia	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	175	169	82	33	344	115
Impact on insurance margin	5.3%	6.1%	2.9%	1.2%	5.7%	2.0%

### Natural Perils

Losses from natural perils (net of reinsurance) totalled \$612m, which was \$87m higher than the period's allowance. After a significant overrun against allowance in 1H19, the second half of the financial year benefited from protection under the FY19 stop-loss cover, which attached immediately above the Group's FY19 allowance.

Unfavourable net natural peril experience, limited by stop-loss protection in 2H19

There were four significant natural peril events during the year:

- The east coast low that affected the Sydney region in November 2018;
- The Sydney hailstorm in December 2018;
- The north Queensland (Townsville) flooding in January 2019; and
- The severe thunderstorm activity in Sydney and other parts of NSW and Queensland in March 2019.

The lower net natural peril claim cost in FY18 was assisted by significant protection from IAG's calendar 2017 aggregate reinsurance cover.

NATURAL PERILS	1H18	2H18	1H19	2H19	FY18	FY19
Australia	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Net natural peril claim costs	(239)	(200)	(409)	(203)	(439)	(612)
Natural peril allowance	296	250	262	263	546	525
Impact on insurance margin	57	50	(147)	60	107	(87)
Impact on insurance margin	1.7%	1.8%	(5.2%)	2.1%	1.8%	(1.5%)

### Claims Experience

Australia's underlying claims ratio (excluding reserve releases, natural perils and discount rate adjustments) was 55.6%, showing good improvement against FY18 (58.4%). This included:

Improved underlying claims performance compared to FY18

- The earned-through effect of higher rates;
- Lower large loss experience in commercial property;
- Benefits from increased use of IAG's preferred repairer network;
- Better current year experience in Business long tail portfolios; and
- The realisation of claims handling benefits from the optimisation program.

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## 7. AUSTRALIA

Short tail Consumer claims experience in FY19 was characterised by:

- Rising average motor collision costs, including a higher proportion of total losses;
- Higher average home claim costs, incorporating inflationary increases in property repair costs and a small number of abnormally large fire or water losses in 1H19; and
- Reductions in home and motor frequency.

IAG has continued to counter underlying claims inflation pressures through the application of higher premium rates. This has been conducted in conjunction with claims initiatives that have seen improvements in customer and quality outcomes and increased use of the home supply chain model across all brands.

One claims-related initiative established during FY19 was a majority-owned joint venture with RACV that entails an enhanced motor repair model to improve customer convenience while getting cars back on the road quickly. The joint venture also involves two repair partners and initially covers six sites in metropolitan centres. Further geographic expansion is planned for FY20.

Based on current uptake levels of over 80% for motor and nearly 50% for home, there remains scope for increased customer use of IAG's preferred supplier networks.

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 FY19, claims were favourable against expectations, and when compared to FY18.

The South Australian and ACT CTP schemes continue to perform strongly.

### EXPENSES

The division's reported expenses totalled \$1,328m in FY19, compared to \$1,478m in FY18. The decrease includes the net effect of:

- A full year's impact from the combined 12.5% quota shares, which took effect from 1 January 2018;
- Realised net benefits from optimisation initiatives;
- An increase in regulatory and compliance costs;
- Inclusion of The Excess Profit or Loss Adjustment (TEPLA) within levies, relating to the capped profitability of the new NSW CTP scheme; and
- A higher earned impact from ESL in FY19.

The reported expense ratio was 23.5% (FY18: 24.3%), and on an ex-levies basis the administration ratio improved to 11.4%, from 12.9% in FY18.

### INSURANCE PROFIT

Australia reported an insurance profit of \$842m, compared to \$1,190m in FY18. This equates to a lower reported insurance margin of 14.9%, compared to 19.6% in FY18. The reduction includes the net effect of:

- Lower prior period reserve releases;
- Higher net natural peril claim costs;
- An unfavourable movement in credit spread impact of \$20m; and
- An approximately 125bps uplift from a full year's effect of the combined 12.5% quota shares which commenced on 1 January 2018.

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Improved expense ratio of 23.5%, as optimisation benefits are realised

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Further improvement in underlying margin, ex-quota share effects

## 7. AUSTRALIA

Australia's underlying performance improved, with an underlying margin of 15.5% including a stronger second half outcome of 16.2%. Aside from the increased quota share effect in 1H19, contributory factors to the full year improvement 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, notably in 1H19, owing to the capped profitability of the new scheme; and
- Benefits realised from the optimisation program.

INSURANCE MARGIN IMPACTS	1H18	2H18	1H19	2H19	FY18	FY19
Australia	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	175	169	82	33	344	115
Natural perils	(239)	(200)	(409)	(203)	(439)	(612)
Natural peril allowance	296	250	262	263	546	525
Credit spreads	47	(33)	(24)	18	14	(6)
Reserve releases	5.3%	6.1%	2.9%	1.2%	5.7%	2.0%
Natural perils	(7.2%)	(7.3%)	(14.4%)	(7.2%)	(7.2%)	(10.8%)
Natural peril allowance	8.9%	9.1%	9.2%	9.3%	9.0%	9.3%
Credit spreads	1.4%	(1.2%)	(0.8%)	0.6%	0.2%	(0.1%)

### FEE BASED INCOME

Fee based income in Australia comprises contributions from two main sources:

- IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government; and
- Investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives.

Total net income from fee based operations in FY19 was a loss of \$1m, compared to a loss of \$5m in FY18. The reduced loss housed:

- An improved performance from the Victorian workers' compensation business. This included \$10m of prior period fee income, which was similar to FY18 and is typically reported in the opening half of the financial year. FY19 was the third year of a five-year contract term;
- The benefit of the absence of the unprofitable NSW business. IAG withdrew from the NSW workers' compensation scheme as at 31 December 2017 after assessment of associated risks and returns. Some run-off expenses were incurred in FY19; and
- Initial costs associated with mobility initiatives, including those arising from the partnership with the Carbar digital car-trading platform and the Safer Journeys crash detection and response service.

Lower fee based loss following exit from NSW workers' compensation

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## 7. AUSTRALIA

### MARKET REGULATION AND LEGISLATIVE REFORM

The **Royal Commission** into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) was established on 14 December 2017. General insurance formed part of Hearing 6 in September 2018. Following an *Interim Report* submitted on 28 September 2018, the Commissioner presented a *Final Report* on 1 February 2019. In its response, the Government noted 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 & Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA), the Office of the Parliamentary Counsel and other agencies as required. The Government has agreed to act on all of the Royal Commission's recommendations, and these are expected to affect the general insurance industry through:

- Extending **unfair contract terms** legislation to insurance contracts;
- **Extending** provisions modelled on the **Banking Executive Accountability Regime** (BEAR) to all APRA-regulated insurers;
- **Removing the exemption for claims handling practices** from the definition of a **'financial service'** in the *Corporations Act*;
- **Prohibiting hawking** of insurance products;
- Considering **whether the exemption to the ban on conflicted remuneration** for general insurance products **remains justified**;
- **Designating as 'enforceable code provisions'** those provisions in the General Insurance Code of Practice that govern **the terms of the contract made** or to be made **between the insurer and the policyholder**; and
- **Mandating deferred sales for add-on insurance products** (including sale of add-on insurance by car dealerships, which IAG exited in 2017).

Actions already in progress on these areas include:

- The Treasury's release of a *Proposals Paper* on 27 June 2018 relating to **unfair contract terms**, seeking views on a model that amends the *Insurance Contracts Act 1984* to allow unfair contract terms laws in the *Australian Securities and Investments Commission Act 2001* to apply to insurance contracts. On 30 July 2019, the Australian Government released exposure draft legislation that extends the unfair contract term regime to insurance contracts. Submissions are due 28 August 2019;
- On 1 March 2019, the Treasury released a *Consultation Paper* that discusses how to bring **claims handling into the definition of 'financial service'** and subject to oversight by ASIC. Submissions closed on 29 March 2019. Draft legislation is expected to be released in late 2019; and
- On 18 March 2019, the Treasury released a *Consultation Paper* on making provisions of **financial services industry codes of conduct more enforceable** and providing both the regulator and consumers with more powers to hold financial services firms to account for misconduct. Submissions were due on 12 April 2019. The *Consultation Paper* will inform the development of legislation.

An independent **Capability Review of APRA** was initiated as a result of a recommendation from the Royal Commission. Released on 15 July 2019, the resulting report made 24 forward-looking recommendations which seek to ensure that APRA is best-placed to deal with its future environment and the challenges which lie ahead. 19 recommendations were made to APRA and five recommendations reside with the Government.

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Royal Commission recommendations expected to affect the insurance industry in several areas

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## 7. AUSTRALIA

A range of other government and regulatory reviews relating to the general insurance industry are in progress:

- On 15 January 2019, the Treasury released a *Discussion Paper* on improving **disclosure in the general insurance sector** following recommendations made in the Senate Economics References Committee Report into the general insurance industry. Submissions closed on 28 February 2019, and the Government is expected to respond later in 2019;
- In December 2017, the 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 2014 Financial System Inquiry's recommendations to introduce **design and distribution obligations** to ensure financial products are targeted at the right people, and a product intervention power for ASIC when there is a risk of significant consumer detriment. Legislation received Royal Assent on 5 April 2019, after which there is a two-year transition period for the design and distribution obligations to be met. A *Consultation Paper* on ASIC's guidance on the design and distribution obligations will commence later in 2019;
- On 26 June 2019, ASIC released a *Consultation Paper* on the proposed administration of its **new product intervention power**. This allows ASIC to intervene and take temporary action where financial and credit products have resulted in, or are likely to result in, significant consumer detriment. ASIC sought comments by 7 August 2019 and aims to release its final regulatory guide in September 2019;
- On 19 February 2019, the authorisation conditions for the **Australian Financial Complaints Authority** (AFCA) were changed, requiring it to deal with complaints about conduct by financial firms (who are current members of AFCA) dating back to 1 January 2008. This jurisdiction operates for a period of 12 months from 1 July 2019. AFCA released a *Consultation Paper* on the proposed changes to its Rules on 18 March 2019. Consultation on the Rules amendments closed on 12 April 2019;
- On 19 October 2016, the Australian Government set up the **ASIC Enforcement Review Taskforce** in response to the 2014 Financial System Inquiry and to review ASIC's enforcement regime and assess the suitability of the regulatory tools available to ASIC to perform its functions. The Taskforce report, released in December 2017, made 50 recommendations (some of which relate to strengthening penalties for corporate and financial sector misconduct) to enhance ASIC's ability to prevent harm and promote a competitive and stable financial system. The Government responded in April 2018, and in October 2018 (acting on the recommendations relating to strengthening penalties) introduced *Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Bill 2018*, which received Royal Assent on 12 March 2019;
- The **Productivity Commission** conducted a 12-month **inquiry into competition in Australia's financial system**. A *Final 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* exemption.

The Government is yet to provide a response to this inquiry;

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Range of other government and regulatory reviews in progress

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## 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**. A *Final Report* is to be submitted to the Treasurer by 30 November 2020. The first *Interim Report*, released on 18 December 2018, included the following recommendations:
  - 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.

A second update report in July 2019 finalised 28 recommendations and outlined several focus areas for 2019, including detailed case studies on sub-regions in northern Australia and measures to improve insurance affordability and availability;

- Submissions to the Senate Economics Reference Committee Inquiry into **non-conforming building products** closed on 18 January 2017 and 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 is expected to respond in 2019;
- On 30 November 2018, the NSW Emergency Services Levy Insurance Monitor released a *Discussion Paper* on **pricing differences observed on new versus existing policies on combined home and contents insurance**, with submissions sought by 20 December 2018. The Monitor has indicated one of the 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;
- APRA released a report in May 2019 analysing the **self-assessments into governance, culture and accountability** required from 36 of the country's largest banks, insurers and superannuation licensees in response to the *Final Report* of the Prudential Inquiry into Commonwealth Bank of Australia. Consistent findings in the self-assessments included:
  - Non-financial risk management requiring improvement;
  - Acknowledged weaknesses being well-known and some longstanding;
  - Accountabilities not always being clear, cascaded and effectively enforced; and
  - Risk culture not well understood and therefore not necessarily reinforcing the desired behaviours.

IAG's self-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**. Mental health claims present a significant challenge to personal injury schemes across the country. The Committee tabled its report in early February 2019. The Productivity Commission is also undertaking an Inquiry examining the effect of supporting mental health on economic and social participation, productivity and the Australian economy. Initial submissions to an *Issues Paper* were due on 5 April 2019. The Victorian Equal Opportunity and Human Rights Commission's investigation into travel insurance has seen several travel insurers change their policies to prevent discrimination against people with mental health conditions. The Victorian Government established a Royal Commission into Victoria's Mental Health System, which is due to provide an *Interim Report* by 30 November 2019 and a *Final Report* by 31 October 2020;



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## 7. AUSTRALIA

- The **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. The Western Australian Government's response to the Inquiry was released in April 2019;
- On 3 July 2019, the Parliament of South Australia's Economic and Finance Committee commenced an **Inquiry into the motor vehicle insurance and repair industry in South Australia**. Submissions are due by 6 September 2019;
- ASIC initiated public consultation in May 2019 on **new standards about how financial firms handle consumer and small business complaints**. ASIC seeks input on the consultation documents by 9 August 2019 and aims to release new Internal Dispute Resolution (IDR) standards by the end of 2019. A separate consultation on the publication of IDR data will commence in early 2020;
- The NSW Parliament's Legislative Council's Public Accountability Committee has commenced an **Inquiry into the regulation of building standards, building quality and building disputes, including limitations on building insurance**. The Committee is holding hearings in August 2019 and requested submissions by 28 July 2019. The Committee will report by 30 September 2019; and
- The **Building Ministers' Forum** met on 18 July 2019 to discuss a range of issues facing the building and construction sector. A professional indemnity *Options Paper* will target consultation with insurers and the building industry and set out a pathway for professional standards schemes and alternative insurance options. The outcomes of the consultation will be reported back to the Building Ministers' Forum by September 2019.

### OUTLOOK

Organic growth opportunities in the Australian market are expected to remain limited, in light of soft new car sales, declines in housing activity and slow growth in household income. This is expected to translate to modest GWP growth in FY20, with other contributory factors being:

- Short tail personal lines rate increases, supplemented by some volume growth;
- Lower CTP GWP, reflecting:
  - The full effect of past price reductions in NSW;
  - Pricing activity in South Australia, as the market becomes fully competitive from 1 July 2019; and
  - Potential scheme reform effects in the ACT from early 2020;
- A lower level of GWP growth in workers' compensation, after the strong performance witnessed in FY19;
- Recent divestments in the area of underwriting agencies (most notably A&HI), which will reduce GWP by over \$100m; and
- Relatively flat GWP from short tail commercial lines, as rate increases are offset by further reduction in volumes.

Underlying profitability is expected to show further improvement, as an increased level of optimisation-related benefits is realised, partially offset by higher regulatory and compliance costs.

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Modest GWP growth anticipated in Australia in FY20, after >\$100m drag from divested agency activities

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Improved underlying profitability expected in FY20



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## 7. AUSTRALIA

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

Some pressure on CTP returns is anticipated, with the transition to a fully competitive market in South Australia and scheme changes in the ACT. NSW CTP profitability is expected to be reasonably flat under the capped nature of the revised scheme which has been in place since December 2017.

Within commercial lines, improved profitability is expected from packaged products through the impact of further targeted rate increases and remediation of poor-performing accounts.

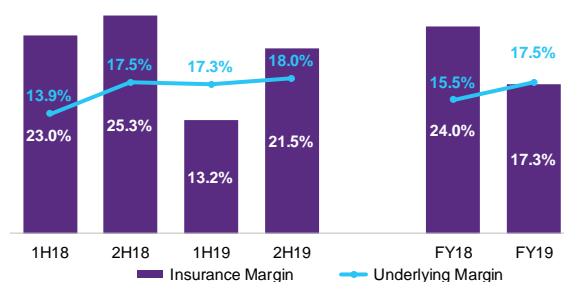
Recent rate and remediation activity in commercial property and fleet portfolios is expected to result in further improvement in related margins.

# 7. AUSTRALIA

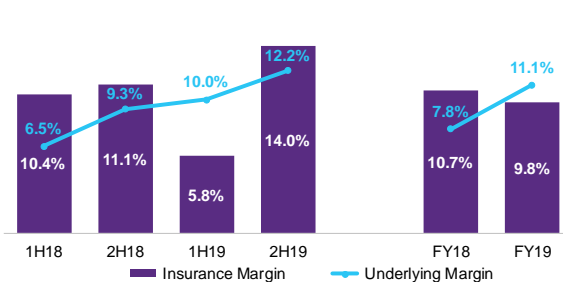
## AUSTRALIA – SEGMENTAL FINANCIAL PERFORMANCE

CONSUMER					BUSINESS				
	FY18 A\$m	1H19 A\$m	2H19 A\$m	FY19 A\$m		FY18 A\$m	1H19 A\$m	2H19 A\$m	FY19 A\$m
<b>Gross written premium</b>	<b>6,214</b>	<b>3,143</b>	<b>3,212</b>	<b>6,355</b>		<b>2,930</b>	<b>1,463</b>	<b>1,513</b>	<b>2,976</b>
Gross earned premium	6,127	3,174	3,152	6,326		3,004	1,524	1,473	2,997
Reinsurance expense	(2,086)	(1,273)	(1,237)	(2,510)		(961)	(591)	(570)	(1,161)
<b>Net earned premium</b>	<b>4,041</b>	<b>1,901</b>	<b>1,915</b>	<b>3,816</b>		<b>2,043</b>	<b>933</b>	<b>903</b>	<b>1,836</b>
Net claims expense	(2,416)	(1,330)	(1,259)	(2,589)		(1,215)	(613)	(562)	(1,175)
Commission expense	(228)	(106)	(126)	(232)		(301)	(133)	(125)	(258)
Underwriting expense	(564)	(267)	(233)	(500)		(385)	(170)	(168)	(338)
<b>Underwriting profit</b>	<b>833</b>	<b>198</b>	<b>297</b>	<b>495</b>		<b>142</b>	<b>17</b>	<b>48</b>	<b>65</b>
Investment income on technical reserves	138	52	115	167		77	37	78	115
<b>Insurance profit</b>	<b>971</b>	<b>250</b>	<b>412</b>	<b>662</b>		<b>219</b>	<b>54</b>	<b>126</b>	<b>180</b>
Profit/(loss) from fee based business	-	-	(4)	(4)		(5)	9	(6)	3
Share of profit/(loss) from associates						2	1	1	2
<b>Total divisional result</b>	<b>971</b>	<b>250</b>	<b>408</b>	<b>658</b>		<b>216</b>	<b>64</b>	<b>121</b>	<b>185</b>
<b>Insurance Ratios</b>	<b>FY18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY19</b>		<b>FY18</b>	<b>1H19</b>	<b>2H19</b>	<b>FY19</b>
Loss ratio	59.8%	70.0%	65.7%	67.8%		59.5%	65.7%	62.2%	64.0%
Immunised loss ratio	60.0%	69.3%	62.9%	66.1%		59.8%	64.6%	57.1%	60.9%
Expense ratio	19.6%	19.6%	18.8%	19.2%		33.5%	32.5%	32.4%	32.5%
Commission ratio	5.6%	5.6%	6.6%	6.1%		14.7%	14.3%	13.8%	14.1%
Administration ratio	14.0%	14.0%	12.2%	13.1%		18.8%	18.2%	18.6%	18.4%
Combined ratio	79.4%	89.6%	84.5%	87.0%		93.0%	98.2%	94.6%	96.5%
Immunised combined ratio	79.6%	88.9%	81.7%	85.3%		93.3%	97.1%	89.5%	93.4%
Reported insurance margin	24.0%	13.2%	21.5%	17.3%		10.7%	5.8%	14.0%	9.8%
Underlying insurance margin	15.5%	17.3%	18.0%	17.5%		7.8%	10.0%	12.2%	11.1%
<b>INSURANCE MARGIN IMPACTS</b>	<b>FY18 A\$m</b>	<b>1H19 A\$m</b>	<b>2H19 A\$m</b>	<b>FY19 A\$m</b>		<b>FY18 A\$m</b>	<b>1H19 A\$m</b>	<b>2H19 A\$m</b>	<b>FY19 A\$m</b>
Reserve releases	267	82	24	106		77	-	9	9
Natural perils	(268)	(312)	(132)	(444)		(171)	(97)	(71)	(168)
Natural perils allowance	376	184	185	369		170	78	78	156
Credit spreads	9	(13)	8	(5)		5	(11)	10	(1)
Reserve releases	6.6%	4.3%	1.3%	2.8%		3.8%		1.0%	0.5%
Natural perils	(6.6%)	(16.4%)	(6.9%)	(11.6%)		(8.4%)	(10.4%)	(7.9%)	(9.2%)
Natural perils allowance	9.3%	9.7%	9.7%	9.7%		8.3%	8.4%	8.6%	8.5%
Credit spreads	0.2%	(0.7%)	0.4%	(0.1%)		0.2%	(1.2%)	1.1%	(0.1%)

## AUSTRALIA CONSUMER – MARGINS



## AUSTRALIA BUSINESS – MARGINS



## 8. NEW ZEALAND

### FINANCIAL PERFORMANCE

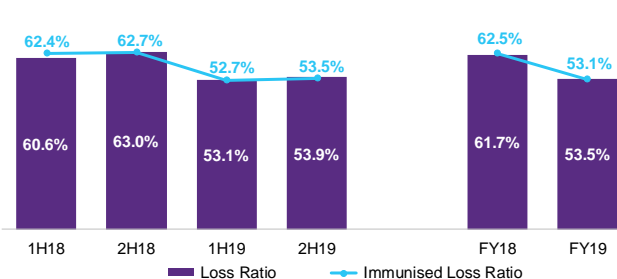
NEW ZEALAND	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
<b>Gross written premium</b>	<b>1,190</b>	<b>1,296</b>	<b>1,268</b>	<b>1,392</b>	<b>2,486</b>	<b>2,660</b>
Gross earned premium	1,160	1,214	1,277	1,327	2,374	2,604
Reinsurance expense	(323)	(471)	(503)	(520)	(794)	(1,023)
<b>Net earned premium</b>	<b>837</b>	<b>743</b>	<b>774</b>	<b>807</b>	<b>1,580</b>	<b>1,581</b>
Net claims expense	(507)	(468)	(411)	(435)	(975)	(846)
Commission expense	(95)	(80)	(81)	(98)	(175)	(179)
Underwriting expense	(117)	(104)	(98)	(104)	(221)	(202)
<b>Underwriting profit</b>	<b>118</b>	<b>91</b>	<b>184</b>	<b>170</b>	<b>209</b>	<b>354</b>
Investment income on technical reserves	1	8	9	27	9	36
<b>Insurance profit</b>	<b>119</b>	<b>99</b>	<b>193</b>	<b>197</b>	<b>218</b>	<b>390</b>

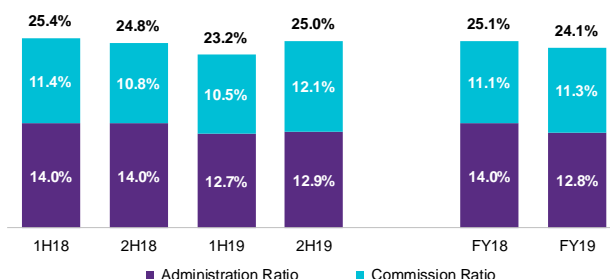
Insurance Ratios	1H18	2H18	1H19	2H19	FY18	FY19
Loss ratio	60.6%	63.0%	53.1%	53.9%	61.7%	53.5%
Immunised loss ratio	62.4%	62.7%	52.7%	53.5%	62.5%	53.1%
Expense ratio	25.4%	24.8%	23.2%	25.0%	25.1%	24.1%
Commission ratio	11.4%	10.8%	10.5%	12.1%	11.1%	11.3%
Administration ratio	14.0%	14.0%	12.7%	12.9%	14.0%	12.8%
Combined ratio	86.0%	87.8%	76.3%	78.9%	86.8%	77.6%
Immunised combined ratio	87.8%	87.5%	75.9%	78.5%	87.6%	77.2%
Reported insurance margin	14.2%	13.3%	24.9%	24.4%	13.8%	24.7%
Underlying insurance margin	17.4%	17.8%	20.0%	18.9%	17.6%	19.5%

### INSURANCE RATIOS

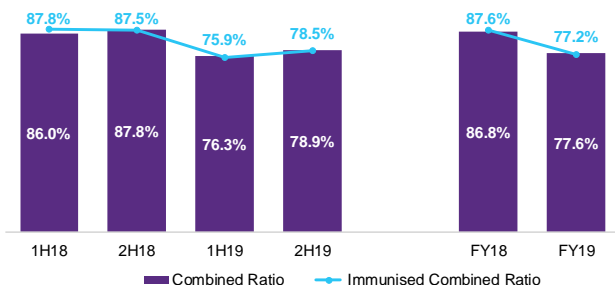
#### LOSS RATIO



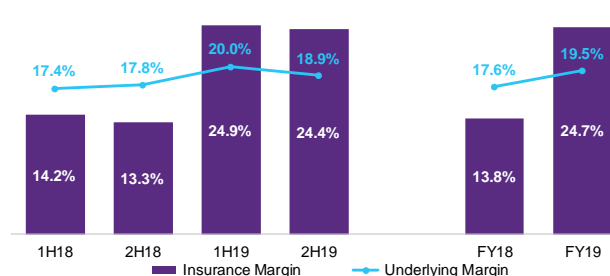
#### EXPENSE RATIOS



#### COMBINED RATIO



#### INSURANCE MARGIN

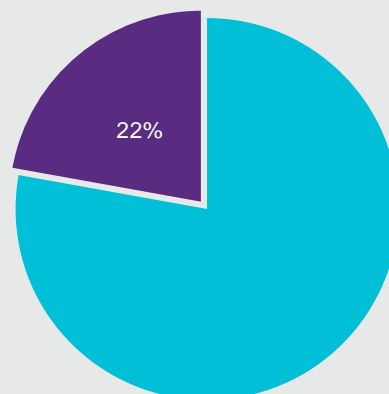


## 8. NEW ZEALAND

### 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 5.2%, driven by rate increases across personal and commercial lines, coupled with volume growth in private and commercial motor classes
- Strong underlying operating performance maintained, with an underlying margin of 19.5%
- Reported margin of 24.7% after benign perils experience throughout the year
- Further GWP growth and strong underlying profitability expected in FY20

New Zealand - % Group GWP



### PREMIUMS

New Zealand's local currency GWP grew by 5.2% in FY19, to NZ\$2,836m (FY18: NZ\$2,696m), encompassing:

- Sound GWP growth in Consumer, led by private motor, through increased rates and volume, and including higher rates in home; and
- Solid GWP growth in Business, driven by rate increases across commercial and personal lines, partially offset by some volume loss as the business adhered to its robust underwriting disciplines.

In reported terms, New Zealand recorded GWP growth of 7.0%, to \$2,660m, following a favourable foreign exchange translation effect.

Consumer represented 58% of New Zealand's GWP in FY19 (FY18: 58%) and achieved GWP growth of 4.9% in local currency terms, compared to FY18. This growth was led by both the AMI brand and the bank partners channel, primarily through rate increases in the home portfolio and via rate and volume increases in private motor.

Retention rates in Consumer's direct brands (AMI and State) were largely in line with FY18. New business growth under these brands was down on the prior year, with the exception of the AMI home owner portfolio which experienced improved new business levels.

Personal lines products written through banking partners achieved strong GWP growth, predominantly driven by higher rates, whilst volumes were largely in line with FY18.

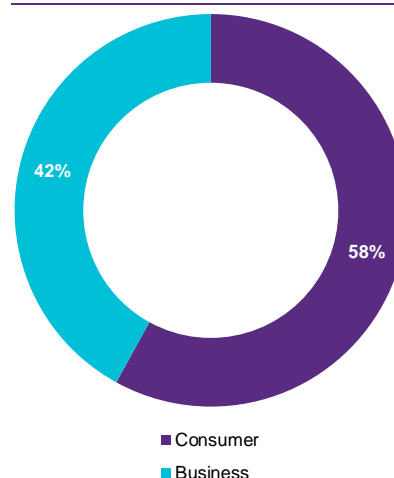
Consumer's direct SME distribution channel maintained its strong GWP performance throughout FY19, delivering 8.6% growth over FY18. A strong contribution from commercial motor, which experienced both rate increases and higher volumes, underpinned this.

Consumer's two direct brands, State and AMI, both received awards during the year demonstrating their commitment to providing world-leading customer experiences:

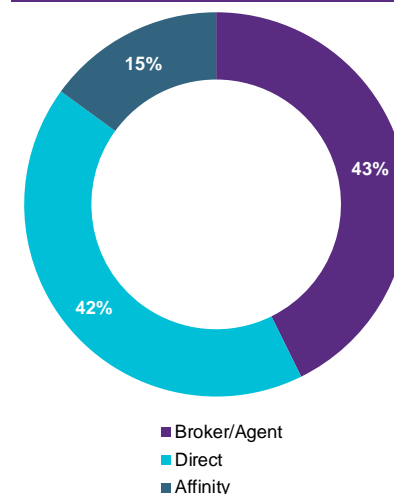
- In May 2019, State was awarded the 2019 Most Satisfied Customers Award for Car Insurance by Canstar, having been the only provider out of nine qualifying motor insurers to command a 5-star rating for overall satisfaction; and
- In November 2018, AMI was awarded the Gold Quality Service Award for Home and Contents Insurance at the 2019 Reader's Digest Quality Service Awards. The awards are based on customer votes and recognise companies which have gone above and beyond their customers' expectations.

### 5.2% increase in local currency GWP

NEW ZEALAND FY19 GWP - DIVISION



NEW ZEALAND FY19 GWP - CHANNEL



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## 8. NEW ZEALAND

Delivering positive customer experiences also contributed to continued improvement in both State and AML's customer net promoter scores over the course of FY19.

Business represented 42% of New Zealand's GWP in FY19 (FY18: 42%), with local currency GWP growth of 5.5%. This was led by commercial motor, which achieved an increase of 9.5% versus FY18 from a combination of higher rates and volume growth.

GWP growth was experienced across all the other main commercial line portfolios, driven by higher rates, with a partial offset from lower volumes as the division maintained its disciplined underwriting and appropriately priced for risk. Retention rates improved across all main commercial lines portfolios and new business levels increased in commercial property and liability.

### REINSURANCE EXPENSE

New Zealand's reinsurance expense was \$1,023m, compared to \$794m in FY18. The near-29% increase was driven by a full year of quota share entitlements associated with the combined 12.5% whole-of-account agreements that commenced from 1 January 2018.

A slightly higher non-quota share reinsurance expense, compared to FY18, included the effect of:

- Reduced placement of cover to reflect increased quota share;
- Modest aggregate growth in personal lines;
- Slightly lower commercial volumes;
- Increased gross cover, including New Zealand's share of:
  - The FY19 stop-loss protection which attached directly from the FY19 natural perils allowance; and
  - The extra \$1bn of gross protection in the calendar 2019 catastrophe program; and
- Broadly similar catastrophe cover rates.

### CLAIMS

New Zealand produced a significantly lower immunised loss ratio of 53.1%, compared to 62.5% in FY18. This improved outcome was driven by:

- A benign natural peril experience, with related net claim costs of \$15m well down on FY18 (\$100m); and
- Reserve releases of \$14m compared to net prior period strengthening of \$39m in FY18.

The reported loss ratio of 53.5% (FY18: 61.7%) 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 \$14m in FY18. A corresponding positive effect is included in investment income on technical reserves, resulting in no net margin impact.

New Zealand experienced a relatively benign level of natural peril activity in FY19. Net related claim costs were \$68m below allowance, with no significant events during the year. This is in comparison to FY18 which was \$21m above allowance as a result of several large weather events in the second half of the year.

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Higher reinsurance expense reflects quota share effects

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

## 8. NEW ZEALAND

NATURAL PERILS New Zealand	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Net natural peril claim costs	(17)	(83)	(5)	(10)	(100)	(15)
Natural peril allowance	43	36	42	41	79	83
<b>Impact on insurance margin</b>	<b>26</b>	<b>(47)</b>	<b>37</b>	<b>31</b>	<b>(21)</b>	<b>68</b>
<b>Impact on insurance margin</b>	<b>3.1%</b>	<b>(6.4%)</b>	<b>4.8%</b>	<b>3.9%</b>	<b>(1.3%)</b>	<b>4.3%</b>

Prior period reserve releases of \$14m included the favourable development of peril events that impacted New Zealand in 2H18.

This was dissimilar to FY18, which saw \$39m of reserve strengthening as a result of:

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

Favourable movement in reserve releases vs. FY18

RESERVE RELEASES New Zealand	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Reserve releases	(53)	14	1	13	(39)	14
<b>Impact on insurance margin</b>	<b>(6.3%)</b>	<b>1.9%</b>	<b>0.1%</b>	<b>1.6%</b>	<b>(2.5%)</b>	<b>0.9%</b>

Working claims experience in FY19 was below expectations and similar to FY18. Average working claim costs increased by inflationary levels with claims frequency improving on FY18 experience, largely as a result of better weather conditions throughout the year, with New Zealand experiencing fewer wet days.

Large claim (greater than NZ\$100,000) experience in FY19 was in line with the same period last year and below expectations.

### EARTHQUAKE SETTLEMENTS

Steady progress continues to be made with the settlement of claims associated with the FY11 Canterbury earthquake events. At 30 June 2019 NZ\$6.85bn of claim settlements had been completed, and less than 1,100 claims remained open out of more than 90,000 received.

During FY19 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 30 June 2019, 98.7% of all claims by number had been fully settled.

### EXPENSES

New Zealand's reported expenses totalled \$381m in FY19, compared to \$396m in FY18. The decrease in expenses was due to a full year's impact of the combined 12.5% quota shares which took effect from 1 January 2018.

Working and large claim experience below expectations

No change to reserved position for FY11 Canterbury earthquake events

Lower expenses influenced by full quota share effect

## 8. NEW ZEALAND

Excluding quota share impacts, the underlying expense base was slightly higher than FY18, owing to increased investment in IAG New Zealand's digital proposition and increased regulatory and compliance costs, with some offset from net optimisation benefits. The FY19 administration ratio improved to 12.8% (FY18: 14.0%).

A slightly higher commission ratio reflected:

- Relative strength in GWP growth from Business; and
- A stronger underlying performance in the bank partners channel within Consumer.

### INSURANCE PROFIT

The New Zealand business produced a substantially higher insurance profit of \$390m in FY19, compared to \$218m in FY18. This equates to a reported insurance margin of 24.7% (FY18: 13.8%) with the improvement reflecting the combination of:

- A full year's impact from the combined 12.5% quota shares which took effect from 1 January 2018, adding approximately 125bps to the FY19 margin;
- Increased gross earned premium, driven by solid GWP growth in both the Consumer and Business divisions;
- A benign natural perils experience; and
- An absence of prior period reserve strengthening.

Strong underlying performance maintained

INSURANCE MARGIN IMPACTS New Zealand	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Reserve releases	(53)	14	1	13	(39)	14
Natural perils	(17)	(83)	(5)	(10)	(100)	(15)
Natural peril allowance	43	36	42	41	79	83
Reserve releases	(6.3%)	1.9%	0.1%	1.6%	(2.5%)	0.9%
Natural perils	(2.0%)	(11.2%)	(0.6%)	(1.2%)	(6.3%)	(0.9%)
Natural peril allowance	5.1%	4.8%	5.4%	5.1%	5.0%	5.2%

The New Zealand business continues to generate a strong underlying performance, with the increase in underlying margin to 19.5% (FY18: 17.6%) including the full year quota share effect of approximately 125bps.

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

### MARKET REGULATION AND REFORM

The Ministry of Business, Innovation and Employment (MBIE) is consulting on **new conduct obligations for banks and insurers** that include:

- A range of general duties aimed at ensuring customer's interests are considered and prioritised;
- Products that meet customer needs;
- Remuneration and commission structures that support good customer outcomes;
- Insurance claims being settled fairly, quickly and transparently; and
- Empowering the Financial Markets Authority to oversee conduct.

Legislation is expected to be introduced later in 2019 or 2020.

MBIE consulting on insurer conduct obligations and insurance contract law reform options – legislation expected later in 2019 / 2020



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## 8. NEW ZEALAND

The MBIE is also consulting on **insurance contract law reform options** that include:

- Amending the duty of disclosure and ensuring a more proportional response by insurers to non-disclosure;
- Amending the insurance-specific provisions relating to the prohibition of unfair contract terms;
- A range of measures to improve the comparability of insurance policies; and
- A range of other technical issues arising from earlier reviews.

Legislation is expected to be introduced in 2020.

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

- The cessation of the 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 came into force on 1 July 2019. The impact of these changes on industry GWP is not expected to be material.

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 calendar 2019.

The Government has announced a **review of the Fire and Emergency Levy** (under the *Fire and Emergency New Zealand Act*). The review will look at a range of options to fund Fire and Emergency New Zealand, as opposed to just a traditional insurance-based levy. The review will also look to achieve a model that is stable, universal, fair and flexible. The existing levy regime will be retained until 2024.

In July 2019 the **Reserve Bank of New Zealand (RBNZ)** released the review that it commissioned of its **supervision of CBL Insurance Limited (CBL)**, following CBL being placed into liquidation in 2018. The review related to RBNZ's role as regulator and supervisor of licenced insurers, with it accepting all the findings and recommendations for itself and the insurance regulatory regime. These included the recommendations that RBNZ acts to:

- Strengthen the governance obligations of insurers through greater scrutiny and accountability of boards, management and appointed actuaries; and
- Modify the Solvency Standard and, if necessary, seek to modify the *Insurance (Prudential Supervision) Act 2010* to strengthen the capital management and solvency framework for licenced insurers.

IAG New Zealand remains strongly capitalised with a significant buffer held above the present regulatory minimum requirement.

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EQC changes effective  
1 July 2019 – no material  
change to industry GWP  
anticipated

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## 8. NEW ZEALAND

### OUTLOOK

The New Zealand market is expected to remain competitive across both Consumer and Business in FY20.

Sound overall GWP growth is expected in both Consumer and Business, comprising a combination of volume growth and rate increases, with the latter expected to be at lower levels than those experienced in FY19.

The New Zealand business' strategic priorities continue to be:

- Maintaining its market-leading position through the delivery of strong sustainable profitability, robust underwriting and pricing disciplines and strict expense management;
- Simplification and technological rationalisation to drive efficiencies, in line with the IAG-wide optimisation program; and
- The provision of world-leading customer experiences and insurance solutions through ongoing development of its digital proposition.

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

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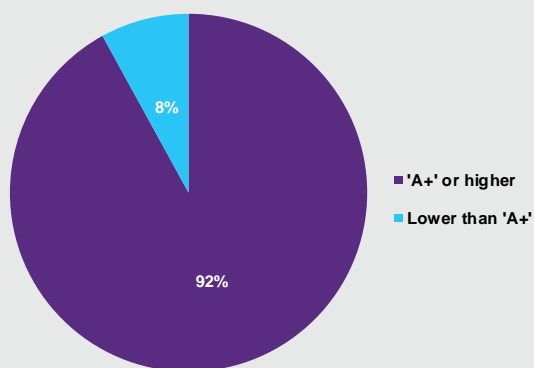
Sound GWP growth anticipated in FY20, while underlying profitability is expected to remain strong

## 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 \$135m at 30 June 2019, post-quota share
- Additional FY20 perils (stop-loss) cover of \$101m in excess of \$675m (post-quota share) – \$34m gap above perils allowance

Counter-Party Risk - Catastrophe Program  
(as at 30 June 2019)



### 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.

### MARKET ENVIRONMENT

Although peril losses – both locally and globally – were significant, the impact on property reinsurance pricing during calendar 2018 was less than originally anticipated. While there has been modest upwards pressure on reinsurance rates in some territories which experienced significant catastrophe losses, reinsurance capital levels have remained high. Consequently, market conditions across all classes of business should continue to be consistent for purchasers of reinsurance for the balance of calendar 2019.

### 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

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

Consistent reinsurance rate outlook in immediate future

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:

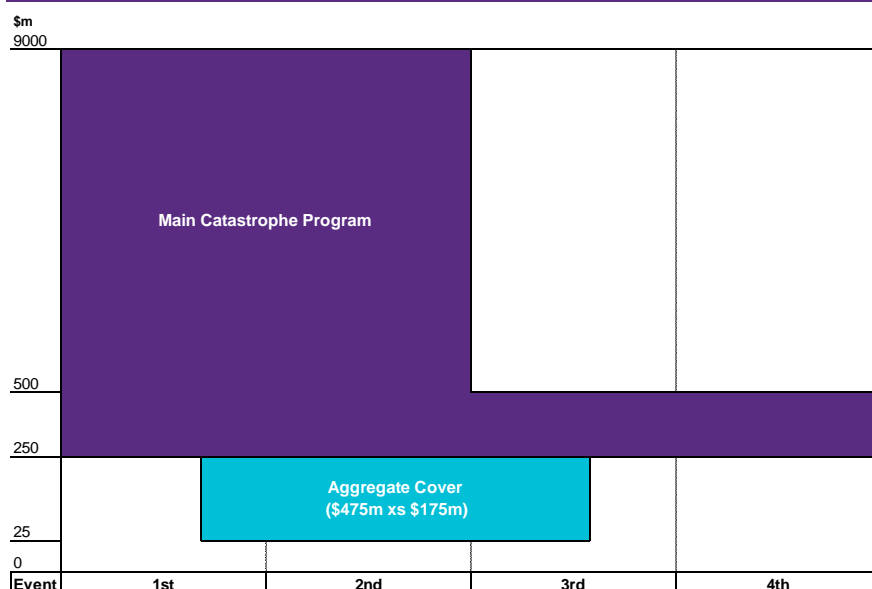
- Reduced earnings volatility, as insurance risk is effectively exchanged for a more stable fee income stream;
- A lower requirement for catastrophe reinsurance and reduced exposure to volatility in associated premium rates; and
- A reduction in IAG's regulatory capital needs.

### 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 manages 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 30 JUNE 2019



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

The integrated 2019 catastrophe program comprises 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 providing 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 (AS AT 1 JANUARY 2019)		
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

As at 30 June 2019, the deductible in respect of the calendar 2019 aggregate cover had been eroded to the extent of approximately \$200m, or \$135m post-quota share. As a result, \$175m of deductible erosion is required over the balance of calendar 2019 before this cover can be accessed, or \$118m on a post-quota share basis.

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 \$1bn (pre-quota share) for the 12 months to 30 June 2020, or \$101m in excess of \$675m post-quota share. This attaches approximately \$34m above IAG's FY20 natural perils allowance of \$641m (\$950m pre-quota share), and follows IAG's full utilisation of the equivalent cover in FY19.

The combination of all catastrophe covers in place results in a reduced MER of \$135m at 30 June 2019, compared to \$169m at 1 January 2019. This reflects events in 2H19 which have partially eroded the deductible on the aggregate cover.

MAXIMUM EVENT RETENTION AT 30 JUNE 2019 (POST QUOTA SHARE)	\$m
Aggregate cover deductible remaining	118
Retention for aggregate cover qualifying events	17
<b>Total</b>	<b>135</b>

### 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.

### 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:

FY20 protection includes stop-loss cover of \$101m, attaching \$34m above perils allowance

MER of \$135m at 30 June 2019

62.5% of CTP subject to quota share

Run-off portfolio protections completed in FY16

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## 9. REINSURANCE

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

### OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect it in all territories in which it underwrites. The majority of these were favourably renewed at 30 June 2019.

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

### COUNTER-PARTY RISK

The counter-party credit profiles for IAG's key reinsurances as at 30 June 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.

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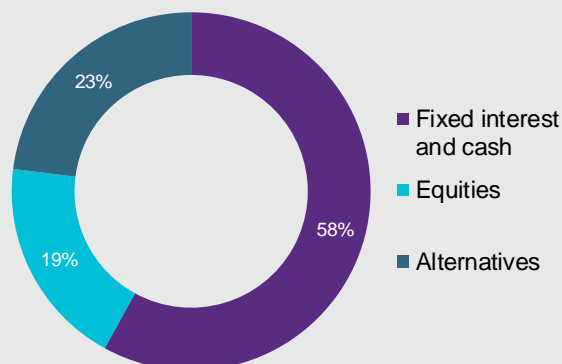
**Strong counter-party risk  
profile maintained**

# 10. INVESTMENTS

## EXECUTIVE SUMMARY

- Total investments of \$10.7bn as at 30 June 2019
- Overall investment allocation remains conservatively positioned
- Technical reserves of \$6.0bn invested in fixed interest and cash
- Shareholders' funds of \$4.7bn – defensive asset weighting of 58% at 30 June 2019
- Solid investment return on technical reserves
- Higher shareholders' funds income following strong equity market performance in 2H19
- Strong credit quality maintained: 80% 'AA' or higher

Shareholders' Funds Mix – 30 June 2019



## 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 does 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 over 81% of total investments in fixed interest and cash as at 30 June 2019. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 58%. IAG's allocation to growth assets was 42% of shareholders' funds at 30 June 2019, compared to 48% at 31 December 2018.

Distinct investment strategies for technical reserves and shareholders' funds

## GROUP INVESTMENT ASSETS

The Group's investments totalled \$10.7bn as at 30 June 2019, excluding investments held in joint ventures and associates, with over 55% represented by the technical reserves portfolio. Since 31 December 2018, there has been a small increase in total investments, reflecting the combined effect of:

- A quota share-influenced \$0.1bn reduction in technical reserves; and
- A \$0.2bn increase in shareholders' funds, reflecting the net effect of:
  - Payment of the interim dividend of \$277m in March 2019;
  - ~\$100m net proceeds from a subordinated term note redemption (\$350m) and the issue of a new Tier 2 instrument (\$450m); and
  - Operating earnings during the period.

Total investments of \$10.7bn, over 55% in technical reserves

GROUP INVESTMENT ASSETS	1H18 A\$bn	FY18 <sup>1</sup> A\$bn	1H19 <sup>1</sup> A\$bn	FY19 <sup>1</sup> A\$bn
Technical reserves	7.5	6.3	6.1	6.0
Shareholders' funds	4.1	4.7	4.5	4.7
<b>Total investment assets</b>	<b>11.6</b>	<b>11.0</b>	<b>10.6</b>	<b>10.7</b>

<sup>1</sup> Excludes investment assets relating to consolidated Asian businesses held for sale.



# 10. INVESTMENTS

## ASSET ALLOCATION

Since 31 December 2018, the main change to asset mix has been the move to a slightly more conservative allocation within shareholders' funds, with the weighting in fixed interest and cash increasing to 58%, from 52%. This reflects:

- A reduction in exposure to equities; and
- The investment of funds held to redeem \$550m of Reset Exchangeable Securities (intended to occur in December 2019) in defensive fixed income securities.

The allocation to alternative investments currently includes higher yielding credit strategies, global convertible bonds and hedge funds.

Over 81% of investments in fixed interest and cash

### GROUP ASSET ALLOCATION

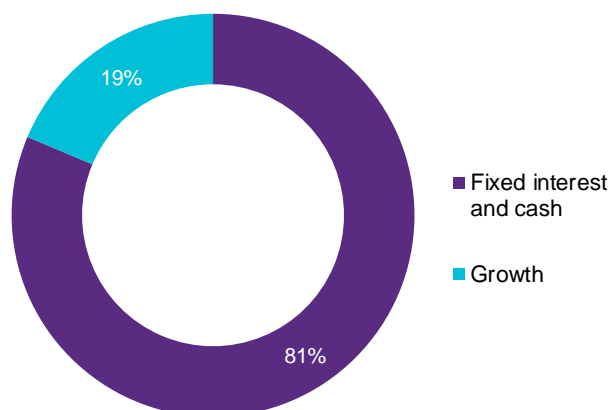
	1H18	FY18	1H19	FY19
	%	%	%	%
<b>SHAREHOLDERS' FUNDS</b>				
Australian equities	10.2	7.6	8.8	6.1
International equities	21.0	14.6	14.6	13.4
Alternatives	22.0	20.4	24.3	22.6
Fixed interest and cash	46.8	57.4	52.3	57.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>TECHNICAL RESERVES</b>				
Fixed interest and cash	100.0	100.0	100.0	100.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES</b>				
	%	%	%	%
Australian equities	3.6	3.2	3.7	2.7
International equities	7.5	6.2	6.2	5.9
Alternatives	7.8	8.6	10.3	10.0
Fixed interest and cash	81.1	82.0	79.8	81.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## CREDIT QUALITY OF ASSETS

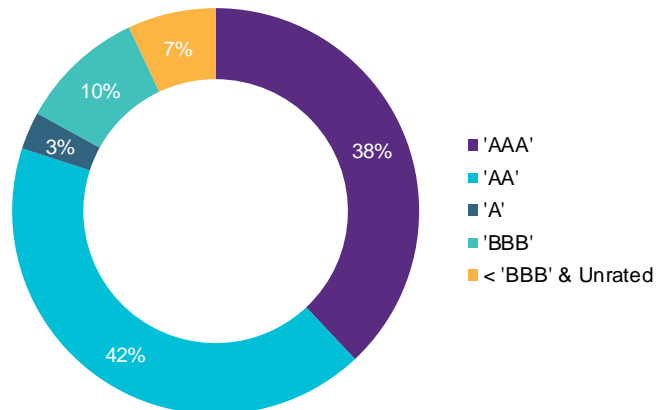
The credit quality of IAG's investment book remains strong, with nearly 80% of interest-bearing investments rated 'AA' or higher.

Strong credit quality maintained

### GROUP ASSET ALLOCATION – 30 JUNE 2019



### CREDIT QUALITY – 30 JUNE 2019



## 10. INVESTMENTS

### SENSITIVITY ANALYSIS

As at 30 June 2019, 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 30 JUNE 2019	Change in Assumption	
	+1% A\$m	-1% A\$m
<b>Equity market values:</b>		
Australian equities	3	(3)
International equities	6	(6)
<b>Total equity market sensitivity</b>	<b>9</b>	<b>(9)</b>
<b>Interest rates:</b>		
Assets backing technical provisions	(105)	111
Assets backing shareholders' funds	(28)	30
<b>Total interest rate sensitivity</b>	<b>(133)</b>	<b>141</b>

### INVESTMENT PERFORMANCE

A solid investment return was achieved on the technical reserves portfolio in FY19, with investment income of \$321m (FY18: \$230m) influenced by:

- Reduced average investment assets of ~\$6.2bn (FY18: ~\$7.3bn), primarily as a consequence of effects from the combined 12.5% quota shares which commenced on 1 January 2018;
- Significant downwards movement in the yield curve, resulting in an unrealised capital gain of nearly \$130m at 30 June 2019, compared to a small unrealised loss at the end of FY18;
- A negative \$6m effect from the widening of credit spreads, compared to a gain of \$14m in FY18 from the narrowing of spreads; and
- A minor favourable foreign exchange impact, primarily from the hedge associated with earthquake-related reinsurance recoveries.

After adjusting for the factors outlined above, the average yield achieved in FY19 was lower than that of FY18.

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

Investment income on shareholders' funds was a profit of \$227m (FY18: \$165m), following a strong rebound in performance in 2H19. The full year's outcome embraced:

- A strong performance from equity markets, heavily skewed to 2H19;
- A strong return from alternative investments;
- Slightly higher average assets than FY18; and
- An average asset mix similar to FY18.

The S&P ASX200 Accumulation Index in Australia delivered a positive return of 11.6% in FY19 (FY18: +13.0%), while the MSCI World Total Return Index (AUD Hedged) advanced 6.3% (FY18: +11.5%).

Solid return on technical reserves

Shareholders' funds income buoyed by strong equity market returns in 2H19

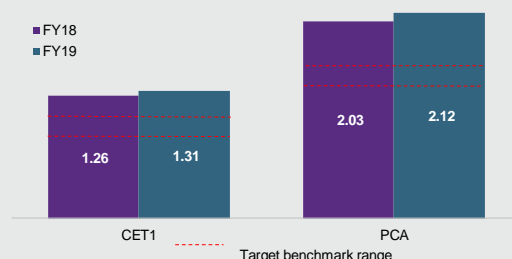
INVESTMENT INCOME	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m
Technical reserves	123	107	102	219	230	321
Shareholders' funds	129	36	(7)	234	165	227
<b>Total investment income</b>	<b>252</b>	<b>143</b>	<b>95</b>	<b>453</b>	<b>395</b>	<b>548</b>

# 11. BALANCE SHEET & CAPITAL

## EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
- CET1 multiple of 1.31 vs. benchmark of 0.9-1.1
- PCA multiple of 2.12 vs. benchmark of 1.4-1.6
- Debt and hybrids 36.5% of total tangible capitalisation – within 30-40% targeted range
- \$592m combined capital return and special dividend completed in November 2018
- S&P 'AA-' rating of core operating subsidiaries reaffirmed in May 2019

## Regulatory Capital



## BALANCE SHEET

	1H18 A\$m	FY18 A\$m	1H19 A\$m	FY19 A\$m
<b>Assets</b>				
Cash and cash equivalents	436	448	431	538
Investments	11,580	11,007	10,605	10,684
Investments in joint ventures and associates	510	557	517	544
Trade and other receivables	3,845	4,085	3,911	4,170
Reinsurance and other recoveries on outstanding claims	5,235	5,422	5,469	5,779
Deferred insurance expenses	3,597	3,443	3,605	3,451
Goodwill and intangible assets	3,263	3,183	3,173	3,098
Assets held for sale	-	655	63	61
Other assets	990	966	992	961
<b>Total assets</b>	<b>29,456</b>	<b>29,766</b>	<b>28,766</b>	<b>29,286</b>
<b>Liabilities</b>				
Outstanding claims	10,948	10,410	10,352	10,296
Unearned premium	6,152	6,217	6,227	6,334
Interest bearing liabilities	1,608	1,960	1,976	2,080
Trade and other payables	2,845	2,592	2,835	2,680
Liabilities held for sale	-	444	27	27
Other liabilities	1,078	1,202	1,008	1,159
<b>Total liabilities</b>	<b>22,631</b>	<b>22,825</b>	<b>22,425</b>	<b>22,576</b>
<b>Net assets</b>	<b>6,825</b>	<b>6,941</b>	<b>6,341</b>	<b>6,710</b>
<b>Equity</b>				
Equity attributable to holders of ordinary shares	6,598	6,669	6,110	6,404
Non-controlling interests	227	272	231	306
<b>Total equity</b>	<b>6,825</b>	<b>6,941</b>	<b>6,341</b>	<b>6,710</b>

IAG's total assets at 30 June 2019 were \$29,286m, compared to \$28,766m at 31 December 2018. The net increase of \$520m includes:

- A \$79m increase in investments, including the effect of:
  - Net issuance of \$100m of subordinated term notes;

**Strong balance sheet maintained**

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## 11. BALANCE SHEET & CAPITAL

- Operating earnings since 31 December 2018;
- Payment of the interim dividend (\$277m) in March 2019; and
- A further quota share-related reduction;
- A \$259m increase in trade and other receivables, reflecting growth in GWP and seasonal commercial renewal activity;
- A \$310m increase in reinsurance and other recoveries on outstanding claims, including recognition of \$101m of recoveries under the FY19 stop-loss catastrophe cover; and
- A \$154m decrease in deferred insurance expenses, reflecting the amortisation associated with the catastrophe reinsurance program which renewed on 1 January 2019.

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 30 June 2019 were \$22,576m, compared to \$22,425m at 31 December 2018. The net increase of \$151m includes:

- A \$107m increase in unearned premium, reflecting higher GWP;
- A net increase of \$104m in interest bearing liabilities from subordinated term note transactions;
- A \$155m decrease in trade and other payables, predominantly relating to payment of the final reinsurance premium instalment for the calendar 2018 catastrophe cover; and
- A \$151m increase in other liabilities, including the seasonal increase in cash-based staff incentives and higher restructuring provisions.

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

IAG shareholders' equity (excluding non-controlling interests) increased from \$6,110m at 31 December 2018 to \$6,404m at 30 June 2019, predominantly reflecting the net effect of:

- Retained earnings in 2H19; and
- Payment of the 12 cents per share interim dividend (\$277m) in March 2019.

### OUTSTANDING CLAIMS

#### Net Outstanding Claims Liability

IAG's net outstanding claims liability at 30 June 2019 stood at \$4,517m, compared to \$4,988m at 30 June 2018. The \$471m reduction over the course of the year included:

- Further impact from the combined 12.5% quota shares;
- Prior period reserve releases recognised in FY19, primarily in respect of long tail classes;
- Settlement of prior period natural peril claims.

At 30 June 2019, the sensitivity of the net outstanding claims liability to a 1% movement in the discount rate, as applied to expected future payments, was:

- +1%, a reduction in net outstanding claims liability of \$83m; and
- -1%, an increase in net outstanding claims liability of \$88m.

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Reduction in net claims liability includes further quota share and reserve release effects

# 11. BALANCE SHEET & CAPITAL

## Claims Development

Note 2.2 of IAG's Annual Report includes a claims development table that shows the development of the estimate of ultimate claim costs for the ten most recent accident years at each reporting date. An extract from that table is set out below.

The table shows a history of the claim reserves being conservatively stated and generally demonstrates favourable development across the period, as the ultimate claim costs were settled or became more certain. An exception is the 2011 accident year, which reflects the adverse development of the New Zealand earthquake events which occurred in that period.

The table highlights that, as at 30 June 2019, more than 98% of the total estimated liability for the 2010 to 2012 accident years had been paid. The equivalent figure for the 2013 to 2017 accident years is over 92%, and in excess of 87% for the 2018 accident year.

NET ULTIMATE CLAIMS PAYMENTS DEVELOPMENT TABLE	Accident Year Ended 30 June											
	2009 and prior A\$m	2010 A\$m	2011 A\$m	2012 A\$m	2013 A\$m	2014 A\$m	2015 A\$m	2016 A\$m	2017 A\$m	2018 A\$m	2019 A\$m	TOTAL A\$m
<b>Development</b>												
At end of accident year		4,709	5,064	5,276	5,226	5,677	6,367	5,027	5,339	4,554	3,985	
One year later		4,683	5,179	5,349	5,151	5,682	6,290	4,979	5,285	4,467		
Two years later		4,581	5,222	5,289	5,069	5,595	6,225	4,920	5,249			
Three years later		4,531	5,253	5,199	4,989	5,455	6,108	4,859				
Four years later		4,479	5,465	5,147	4,909	5,385	6,105					
Five years later		4,426	5,537	5,087	4,890	5,367						
Six years later		4,390	5,551	5,077	4,892							
Seven years later		4,360	5,648	5,090								
Eight years later		4,353	5,649									
Nine years later		4,355										
<b>Current estimate of net ultimate claims</b>		<b>4,355</b>	<b>5,649</b>	<b>5,090</b>	<b>4,892</b>	<b>5,367</b>	<b>6,105</b>	<b>4,859</b>	<b>5,249</b>	<b>4,467</b>	<b>3,985</b>	
Cumulative payments made to date		4,311	5,538	5,012	4,769	5,200	5,852	4,551	4,845	3,904	2,669	
<b>Net undiscounted outstanding claims payments</b>	<b>152</b>	<b>44</b>	<b>111</b>	<b>78</b>	<b>123</b>	<b>167</b>	<b>253</b>	<b>308</b>	<b>404</b>	<b>563</b>	<b>1,316</b>	<b>3,519</b>
Discount to present value	(4)	(1)	(3)	(2)	(4)	(5)	(8)	(7)	(10)	(13)	(18)	(75)
<b>Net discounted outstanding claims payments</b>	<b>148</b>	<b>43</b>	<b>108</b>	<b>76</b>	<b>119</b>	<b>162</b>	<b>245</b>	<b>301</b>	<b>394</b>	<b>550</b>	<b>1,298</b>	<b>3,444</b>
Claims handling costs												355
Risk margin												718
<b>Net outstanding claims liability</b>												<b>4,517</b>
Gross outstanding claims liability on the balance sheet												10,296
Reinsurance and other recoveries on outstanding claims												(5,779)
<b>Net outstanding claims liability</b>												<b>4,517</b>

During FY13 the UK business was sold. The development table above includes claims related to the UK operation up to, and including, the 2012 accident year. Any outstanding claims relating to the UK that remained at the time of divestment have been treated as paid.

During FY18, IAG announced the agreed sale of its operations in Thailand, Indonesia and Vietnam. The development table above includes claims related to those operations up to, and including, the 2018 accident year. Any outstanding claims relating to Thailand, Indonesia and Vietnam at the time of their treatment as discontinued operations have been treated as paid.

## Risk Margins

The claims development table also identifies the total risk margin held to allow for the uncertainty surrounding the outstanding claims liability estimation process. The risk margin is set to take into account the correlations assessed between outstanding claim liabilities arising from the various forms of business underwritten by IAG. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.

IAG's unchanged policy is for the risk margin to be set to provide an overall probability of adequacy for the outstanding claims liability of 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment.

The risk margin applied to the net central estimate of the outstanding claims liability was 19% at 30 June 2019 (FY18: 17%).

# 11. BALANCE SHEET & CAPITAL

## CAPITAL

### Capital Adequacy

IAG is strongly capitalised, with regulatory capital of approximately \$5bn at 30 June 2019. At that date, IAG's Common Equity Tier 1 (CET1) ratio was 1.31 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.

IAG is strongly capitalised

The CET1 ratio has increased from the 1.18 multiple reported at 31 December 2018, owing to the net effect of:

- Earnings in 2H19;
- Payment of a 12 cents per share interim dividend (\$277m) in March 2019;
- Further favourable impact from the combined 12.5% quota shares which came into effect from 1 January 2018;
- A similar excess technical provisions position over liabilities; and
- Further utilisation of tax losses in New Zealand.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H18 A\$m	FY18 A\$m	1H19 A\$m	FY19 A\$m
<b>Common Equity Tier 1 Capital (CET1)</b>				
Ordinary shares	7,082	7,082	6,617	6,617
Reserves	(26)	(4)	39	47
Retained earnings	(428)	(382)	(497)	(211)
Technical provisions in excess of liabilities	452	473	505	500
Minority interests	227	272	231	306
Less: Deductions	(4,207)	(4,327)	(4,153)	(4,177)
<b>Total Common Equity Tier 1 Capital</b>	<b>3,100</b>	<b>3,114</b>	<b>2,742</b>	<b>3,082</b>
<b>Additional Tier 1 Capital</b>				
Hybrid equities	679	624	624	569
<b>Total Tier 1 Capital</b>	<b>3,779</b>	<b>3,738</b>	<b>3,366</b>	<b>3,651</b>
<b>Tier 2 Capital</b>				
Subordinated term notes	943	1,280	1,293	1,330
<b>Total Tier 2 Capital</b>	<b>943</b>	<b>1,280</b>	<b>1,293</b>	<b>1,330</b>
<b>Total Regulatory Capital</b>	<b>4,722</b>	<b>5,018</b>	<b>4,659</b>	<b>4,981</b>
<b>Prescribed Capital Amount (PCA)</b>				
Insurance risk charge	1,106	1,055	1,002	987
Insurance concentration risk charge	169	169	169	169
Diversified asset risk charge	1,620	1,489	1,358	1,407
Aggregation benefit	(642)	(605)	(566)	(572)
Operational risk charge	355	360	365	363
<b>Total Prescribed Capital Amount</b>	<b>2,608</b>	<b>2,468</b>	<b>2,328</b>	<b>2,354</b>
<b>PCA multiple</b>	<b>1.81</b>	<b>2.03</b>	<b>2.00</b>	<b>2.12</b>
<b>CET1 multiple</b>	<b>1.19</b>	<b>1.26</b>	<b>1.18</b>	<b>1.31</b>

Unutilised tax losses stemming from the Canterbury earthquakes in New Zealand in FY11 stood at approximately \$323m at 30 June 2019, and are disallowed for regulatory capital calculation purposes. During 2H19, related tax losses on the balance sheet reduced by nearly \$50m.

# 11. BALANCE SHEET & CAPITAL

Allowing for the final dividend which will be paid at the end of September 2019, the CET1 ratio at 30 June 2019 would reduce to 1.12.

At 30 June 2019 IAG's PCA ratio was 2.12, compared to a targeted range of 1.4 to 1.6 times.

Post-final dividend, CET1 ratio slightly above benchmark

## Interest Bearing Liabilities

IAG's interest bearing liabilities stood at \$2,080m at 30 June 2019, compared to \$1,976m at 31 December 2018. The net movement in the period reflects:

- Redemption of \$350m of subordinated notes on their first issuer call date of 19 March 2019; and
- The issue of \$450m of Tier 2 subordinated debt on 28 March 2019.

	1H18 A\$m	FY18 A\$m	1H19 A\$m	FY19 A\$m
<b>INTEREST BEARING LIABILITIES</b>				
Subordinated debt	668	1,020	1,033	1,135
Reset Exchangeable Securities	550	550	550	550
Capital Notes	404	404	404	404
Capitalised transaction costs/other	(14)	(14)	(11)	(9)
<b>Total interest bearing liabilities</b>	<b>1,608</b>	<b>1,960</b>	<b>1,976</b>	<b>2,080</b>

GROUP DEBT & HYBRID CAPITAL	Principal amount		Yield	Rate	First Call or Exchange date	S&P rating
	\$m	A\$m				
Subordinated fixed rate notes	NZ\$350	335	5.15%	Fixed	Jun-22	'BBB'
Subordinated term notes (issued Mar-18) <sup>1</sup>	A\$350	350	3.40%	Variable	Jun-24	'BBB'
Subordinated term notes (issued Mar-19) <sup>2</sup>	A\$450	450	3.65%	Variable	Jun-25	'BBB'
<b>Total Debt</b>		<b>1,135</b>				
Reset Exchangeable Securities (IANG) <sup>3</sup>	A\$550	550	3.71%	Variable	Dec-19	'BBB+'
Capital Notes (IAGPD) <sup>4</sup>	A\$404	404	4.20%	Variable	Jun-23	'N/R'

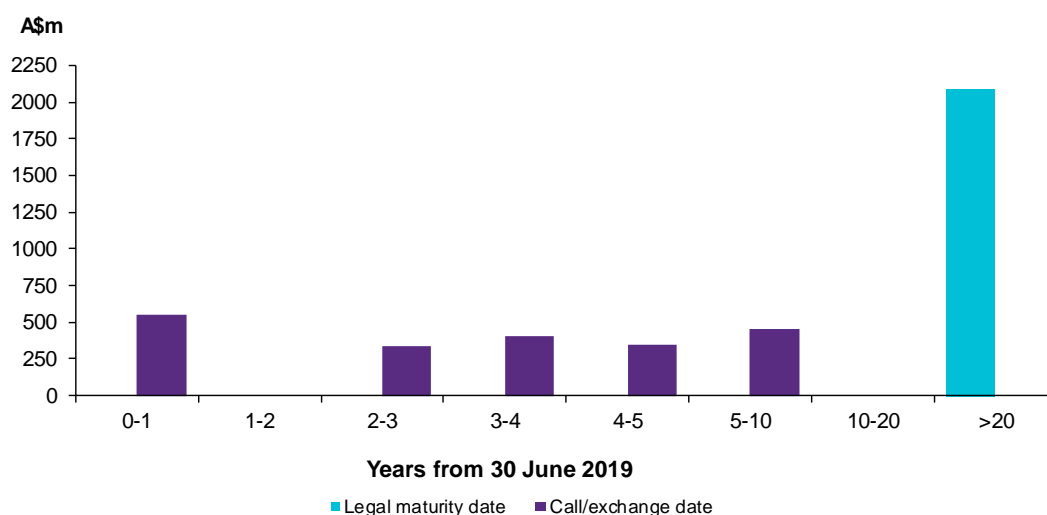
<sup>1</sup> Stated yield based on margin of BBSW + 2.10%.

<sup>2</sup> Stated yield based on margin of BBSW + 2.35%.

<sup>3</sup> The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

<sup>4</sup> The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

## GROUP DEBT MATURITY PROFILE





# 11. BALANCE SHEET & CAPITAL

## 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	FY19 A\$m
Shareholder equity	6,825	6,941	6,341	6,710
Intangibles and goodwill	(3,263)	(3,183)	(3,173)	(3,098)
<b>Tangible shareholder equity</b>	<b>3,562</b>	<b>3,758</b>	<b>3,168</b>	<b>3,612</b>
Interest bearing liabilities	1,608	1,960	1,976	2,080
<b>Total tangible capitalisation</b>	<b>5,170</b>	<b>5,718</b>	<b>5,144</b>	<b>5,692</b>
<b>Debt to total tangible capitalisation</b>	<b>31.1%</b>	<b>34.3%</b>	<b>38.4%</b>	<b>36.5%</b>

At 30 June 2019, debt and hybrids represented 36.5% of total tangible capitalisation, within IAG's targeted range. This ratio has decreased since 1H19 (38.4%), with ingredients behind the net movement being:

- Redemption of \$350m of subordinated notes on their first issuer call date of 19 March 2019;
- The issue of \$450m of Tier 2 subordinated debt on 28 March 2019; and
- Increased shareholder equity in 2H19, as retained earnings exceeded dividend payments.

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's present intention is to redeem the RES at the reset date, using the funds from the \$450m subordinated debt issue in March 2019.

Funds from recent Tier 2 issue earmarked for redemption of RES

## 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, as well as the profit on sale of the Thailand business.

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

## Credit Ratings

On 14 May 2019, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' insurer financial strength and issuer credit ratings for IAG's core operating subsidiaries, as well as its 'A' issuer credit rating of the non-operating holding company, Insurance Australia Group Limited. S&P's rating 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 30 June 2019).

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.

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# 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.

### 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

## 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
- Lifestyle and leisure insurance, such as boat, veteran and classic car and caravan

### Long tail insurance

- Compulsory Third Party (motor injury liability)

### Short tail insurance

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

### Long tail insurance

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

### Short tail insurance

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

### Long tail insurance

- Personal liability
- Commercial liability

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# 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, a significant part of which is interests in the insurance and reinsurance industries.

**BERKSHIRE HATHAWAY INC.**

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

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

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

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

## AUSTRALIA

### NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED

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

### ROYAL AUTOMOBILE CLUB OF VICTORIA (RACV)

RACV is a mutual organisation founded in 1903. It provides a diverse range of services to 2.2 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.

## ASIA

### AMBank GROUP

AmBank Group was established in August 1975 and 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

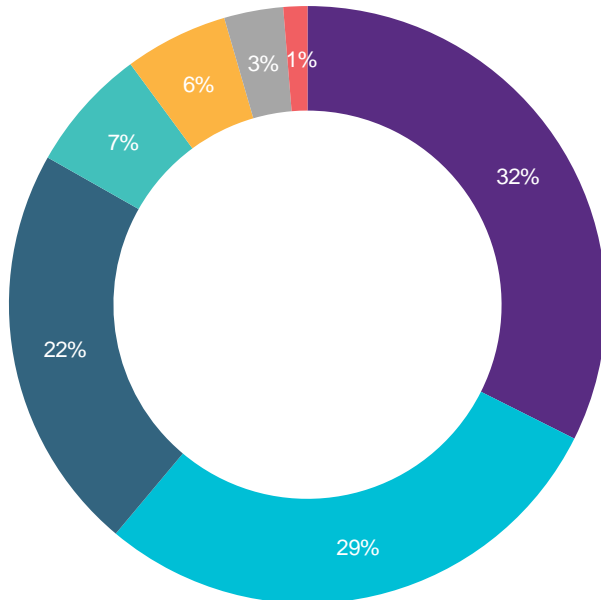
State Bank of India (SBI) is India's largest and oldest bank, with origins dating back to 1806. It offers a broad range of banking and financial services, and has a savings account base of over 425 million customers and in excess of 24,000 branches across all states of India.



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

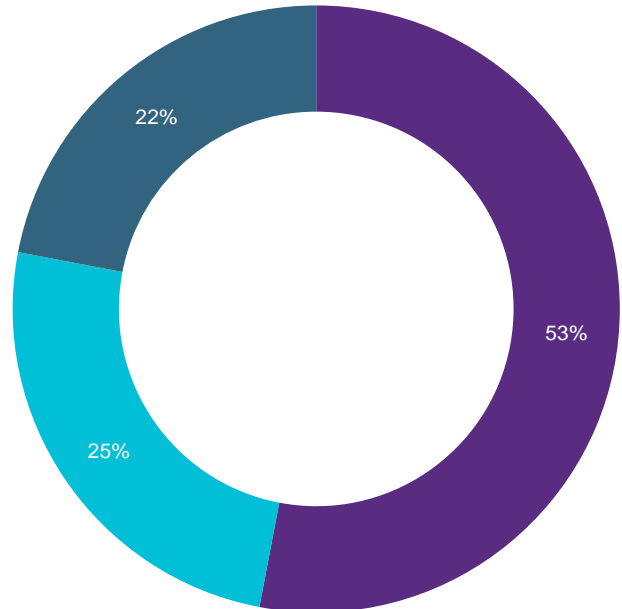
## APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT — FY19



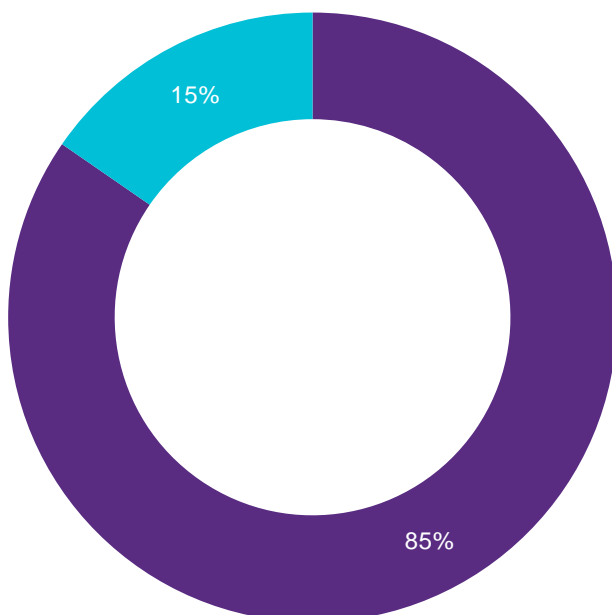
- Motor
- Home
- Short tail commercial
- CTP/motor liability
- Liability
- Workers' compensation
- Other short tail

IAG GROUP GWP BY BUSINESS — FY19



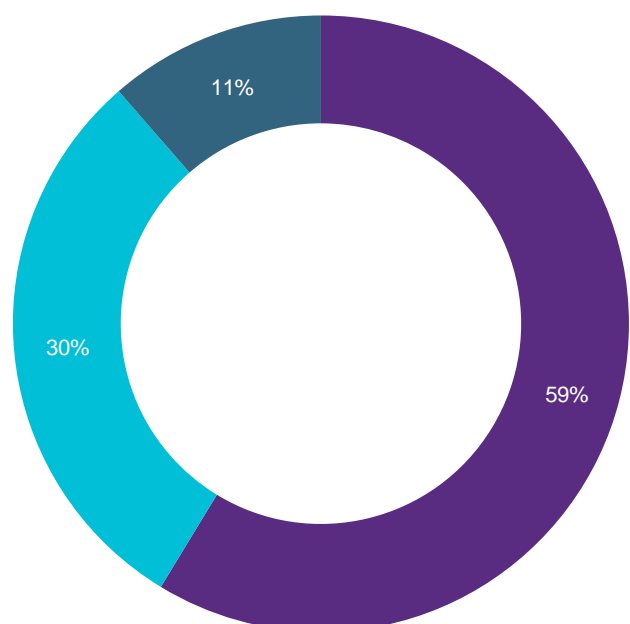
- Australia Consumer
- Australia Business
- New Zealand

IAG GROUP GWP BY TAIL — FY19



- Short Tail
- Long Tail

IAG GROUP GWP BY CHANNEL — FY19



- Direct
- Intermediated
- Affinity

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## APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 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 [www.iag.com.au](http://www.iag.com.au).

### **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.

### **6-FEB-19 IAG ANNOUNCES 1H19 RESULTS**

IAG announced its 1H19 results which demonstrated a continued improvement in underlying performance which was broadly in line with expectations. GWP growth of 4.1% was largely driven by premium increases and an underlying insurance margin of 16.2% increased by 70bps after exclusion of quota share effects. The reported insurance margin of 13.7% was lower than 1H18, mainly due to a net natural peril claim cost outcome \$110m above allowance following the Sydney hailstorm event in December 2018. A 12 cent per share interim dividend represented a cash payout ratio of 87%. FY19 guidance was unchanged, at GWP growth of 2-4% and a reported insurance margin of 16-18%.

### **18-FEB-19 IAG TO REDEEM TIER 2 DEBT ISSUE**

IAG gave notice to holders of its \$350m Tier 2 subordinated debt instrument, originally issued in March 2014, that it will proceed with redemption at the issuer call date on 19 March 2019.

### **20-MAR-19 IAG ANNOUNCES SUBORDINATED DEBT ISSUE**

IAG announced it will offer a new A\$ subordinated debt issue seeking to raise a minimum of \$300m which is expected to qualify as Tier 2 Capital.

### **20-MAR-19 IAG PRICES INSTITUTIONAL SUBORDINATED DEBT ISSUE**

IAG advised it had successfully priced \$450m of securities under its wholesale A\$ subordinated debt offering, with the securities scheduled to be issued on 28 March 2019. The issue will pay investors interest quarterly at a floating rate equal to the three-month market rate (currently BBSW) plus a margin of 2.35% per annum.

### **26-MAR-19 EXECUTIVE RETIREMENT**

IAG announced that Jacki Johnson, Group Executive of People, Performance & Reputation and a member of the company's Group Leadership Team, will retire effective 30 June this year, after 18 years with the company. IAG will conduct an internal and external executive search to identify a suitable replacement for Ms Johnson's portfolio.

### **11-APR-19 PROCEEDINGS FILED AGAINST IAG**

IAG confirmed it had been made aware of a representative proceeding filed by Johnson Winter & Slattery in the Federal Court of Australia against it and its subsidiary, Swann Insurance (Aust) Pty Ltd.



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## APPENDIX E KEY ASX RELEASES

### **12-JUN-19 IAG APPOINTS NEW BOARD DIRECTOR**

IAG announced the appointment of George Savvides as an independent non-executive director to the IAG Board.

### **17-JUN-19 IMPORTANT INFORMATION ON IAG HYBRID SECURITY DISTRIBUTIONS**

IAG announced changes to the timing of its frankable hybrid security distribution announcements. As security distributions may not be fully franked from the second half of calendar 2019 onwards, it is no longer possible to confirm the hybrid distribution amount scheduled to be paid in March and September on the previous quarter's distribution payment date. In future, these will be announced alongside IAG's half-year and full-year results announcements in February and August respectively.

### **25-JUN-19 MEDIA SPECULATION ON IAG'S INVESTMENT IN INDIA**

IAG noted speculation that had appeared in the Indian Economic Times regarding IAG's 26% interest in SBI General Insurance Company (SBI General). IAG advised that, as previously notified, it continued to assess options for its joint venture interests in Asia, including its interest in SBI General. IAG confirmed that discussions had been held with external parties regarding a potential sale of all or part of IAG's 26% interest in SBI General, but there was no certainty that a transaction would occur.

### **31-JUL-19 IAG APPOINTS GROUP EXECUTIVE PEOPLE, PERFORMANCE AND REPUTATION**

IAG announced the appointment of Christine Stasi as Group Executive People, Performance and Reputation. Ms Stasi will report directly to IAG Managing Director and CEO Peter Harmer, and will start at IAG in late October.

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## APPENDIX F GLOSSARY

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

<b>AFFINITY</b>	A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.
<b>APRA</b>	Australian Prudential Regulation Authority.
<b>ASIC</b>	Australian Securities & Investments Commission.
<b>CAPITAL NOTES</b>	Capital Notes were issued by IAG in December 2016 and are quoted as IAGPD on ASX.
<b>CASH EARNINGS</b>	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.
<b>CASH ROE</b>	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.
<b>CLAIMS HANDLING EXPENSES</b>	Those administration costs incurred in the investigation, assessment and settlement of a claim.
<b>COMBINED RATIO</b>	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.
<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>	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.
<b>CREDIT SPREAD</b>	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.
<b>CTP</b>	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
<b>DEFERRED ACQUISITION COSTS (DAC)</b>	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.
<b>DISCOUNT RATE</b>	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.

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## APPENDIX F GLOSSARY

<b>DRP</b>	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.
<b>EPS</b>	Earnings per share.
<b>EXCHANGE COMMISSION</b>	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.
<b>EXPENSE RATIO</b>	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
<b>FIRE SERVICE LEVIES</b>	Fire service levies are taxes on insurers to assist government funding for fire and emergency services. In Australia, where they remain (the Emergency Services Levy (ESL) in NSW and the Fire Services Levy (FSL) in Tasmania (commercial property lines only)), they are an expense of the insurer, rather than government charges directly upon those insured. In these instances, the insurer is responsible for paying these levies, usually in arrears, and they are included in GWP and expenses for reporting purposes.
<b>FRANKING CREDITS</b>	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.
<b>GROSS EARNED PREMIUM</b>	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.
<b>GROSS WRITTEN PREMIUM (GWP)</b>	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.
<b>IFRS</b>	International Financial Reporting Standards.
<b>IMMUNISED RATIO</b>	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.
<b>INSURANCE MARGIN</b>	The ratio of insurance profit to net earned premium.
<b>INSURANCE PROFIT</b>	Underwriting result plus investment income on assets backing technical reserves.

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## APPENDIX F GLOSSARY

<b>LIABILITY ADEQUACY TEST (LAT)</b>	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.
<b>LONG TAIL</b>	Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time earned premiums are collected and final settlement of claims occurs.
<b>LOSS RATIO</b>	The ratio of net claims expense to net earned premium.
<b>MER</b>	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.
<b>NATURAL PERILS</b>	Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.
<b>NATURAL PERILS ALLOWANCE</b>	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.
<b>NATURAL PERILS EXPENSE</b>	Losses arising from natural perils after deducting any applicable reinsurance recoveries.
<b>NET CLAIMS EXPENSE</b>	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
<b>NET EARNED PREMIUM (NEP)</b>	Gross earned premium less reinsurance expense.
<b>PCA</b>	Prescribed Capital Amount, as defined by APRA under its LAGIC regime.
<b>PROBABILITY OF ADEQUACY (POA)</b>	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.
<b>QUOTA SHARE</b>	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.
<b>RECOVERIES</b>	The amount of claims recovered from reinsurers, third parties or salvage.

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## APPENDIX F GLOSSARY

<b>RESET EXCHANGEABLE SECURITIES (RES)</b>	Reset Exchangeable Securities (RES) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG.
<b>RISK FREE RATE</b>	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.
<b>RISKS IN FORCE</b>	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.
<b>ROE</b>	Return on equity, being net profit after tax divided by average equity attributable to owners of the company.
<b>SHAREHOLDERS' FUNDS</b>	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
<b>SHORT TAIL</b>	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.
<b>SME</b>	Small-to-medium-sized enterprise.
<b>TECHNICAL RESERVES</b>	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.
<b>TEPLA</b>	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.
<b>TREASURY SHARES</b>	Ordinary IAG shares held by the company. These are primarily for the purposes of meeting share-based remuneration plan obligations.
<b>TSR</b>	Total shareholder return.
<b>UNDERLYING MARGIN</b>	<p>IAG defines underlying margin as the reported insurance margin adjusted for:</p> <ul style="list-style-type: none"><li>• Net natural peril claim costs less related allowance;</li><li>• Reserve releases in excess of 1% of NEP; and</li><li>• Credit spread movements.</li></ul> <p>The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.</p>

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## APPENDIX F GLOSSARY

<b>UNDERWRITING</b>	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
<b>UNDERWRITING EXPENSES</b>	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
<b>UNDERWRITING PROFIT/(LOSS)</b>	Net earned premium less net claims expense, commission expenses and underwriting expenses.
<b>UNEARNED PREMIUM</b>	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.
<b>WACC</b>	Weighted average cost of capital.

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# DIRECTORY

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## SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**): 2,311,046,583 on issue at 30 June 2019
- Reset Exchangeable Securities (**IANG**): 5,500,000 on issue at 30 June 2019
- Capital Notes (**IAGPD**): 4,041,265 on issue at 30 June 2019

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ\$350m outstanding at 30 June 2019

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## KEY DATES

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
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Annual General Meeting	25 October 2019
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Payment date for IANG, IAGPD and IAGFB quarterly distributions	16 December 2019
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Announcement of half year results to 31 December 2019	12 February 2020*
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Interim dividend – ordinary shares

- |                    |                   |
|--------------------|-------------------|
| • Ex-dividend date | 18 February 2020* |
| • Record date      | 19 February 2020* |
| • DRP record date  | 20 February 2020* |
| • Payment date     | 25 March 2020*    |

Payment date for IANG, IAGPD and IAGFB quarterly distributions	16 March 2020
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Payment date for IANG, IAGPD and IAGFB quarterly distributions	15 June 2020
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Announcement of full year results to 30 June 2020	7 August 2020*
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*\*These dates are indicative only and are subject to change. Any change will be announced on ASX.*

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