Investor Report 1H21

10 February 2021

Insurance Australia Group Limited ABN 60 090 739 923

This release has been authorised by the IAG Board

IMPORTANT INFORMATION

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

CONTENTS

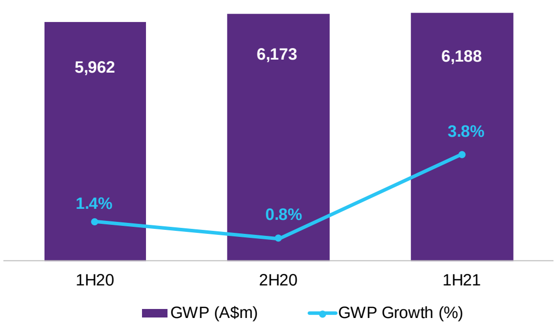
Information previously included in Appendices A to D (Brand Portfolio, Business Snapshot, Key Relationships, Geographical & Product Diversification) is available in IAG's Corporate Profile and can be located at the following link at IAG's corporate website:

https://www.iag.com.au/about-us/what-we-do

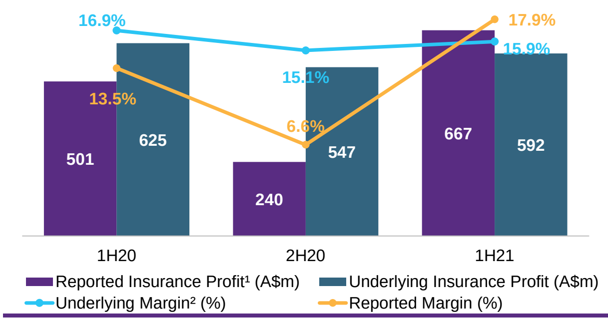
1H21 RESULTS

KEY RESULTS	1H20 A$m	2H20 A$m	1H21 A$m	1H21 vs 1H20 Mvt
Gross written premium (GWP)	**5,962**	**6,173**	**6,188**	**+3.8%**
Net earned premium (NEP)	3,709	3,654	3,723	+0.4%
Insurance profit[1]	**501**	**240**	**667**	**+33.1%**
Net profit/(loss) after tax	283	152	(460)	nm
Cash earnings	**380**	**(101)**	**462**	**+21.6%**
Reported insurance margin	13.5%	6.6%	17.9%	+440bps
Underlying insurance margin[2]	**16.9%**	**15.1%**	**15.9%**	**-100bps**
Diluted EPS (cents)	12.16	6.38	(19.73)	nm
Diluted cash EPS (cents)	15.98	(4.37)	17.88	+11.9%
Cash return on equity (ROE)	12.1%	(3.3%)	15.5%	+340bps
Dividend (cents per share)	**10.0**	**0.0**	**7.0**	30.0%
Common Equity Tier 1 Capital (CET1) multiple	1.15	1.23	1.19	+4bps

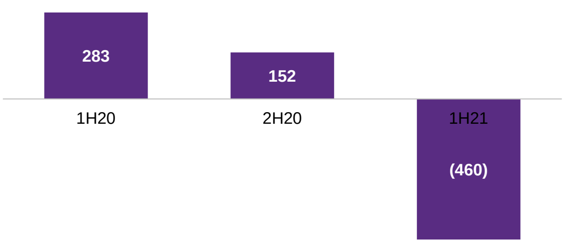
GWP GROWTH



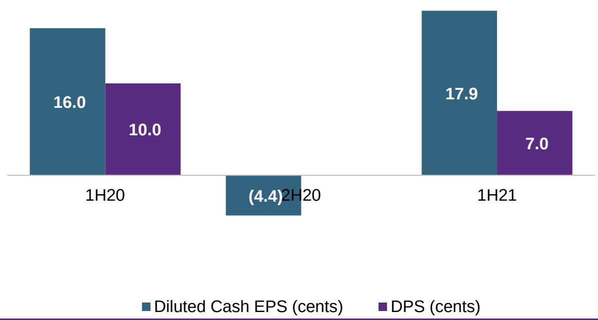
INSURANCE PROFIT & MARGIN



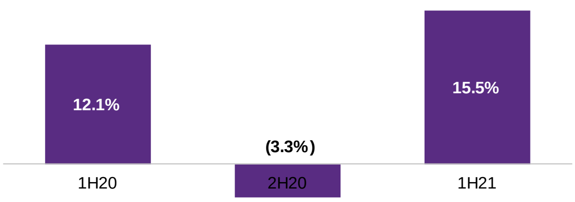
NET PROFIT/(LOSS) AFTER TAX (A$M)



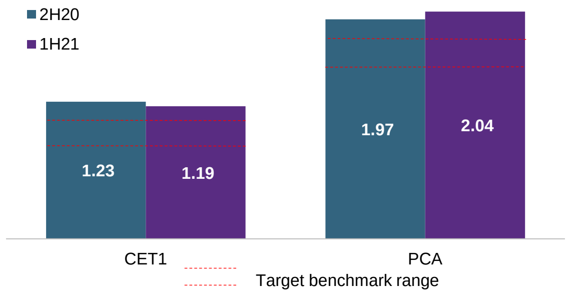
DILUTED CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



¹The 1H21 reported insurance profit in this document is presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure in IAG's 1H21 Financial Report (Appendix 4D). A reconciliation between the two is provided on page 8 of this document and on page 3 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's 1H21 net loss after tax is the same in this document and in the Financial Report.

²IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; reserve releases or strengthening and credit spread movements. Prior to FY21, the definition adjusted for reserve releases in excess of 1% of net earned premium. Comparative periods have not been restated to incorporate the definition from FY21.

1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Stable and resilient underlying business performance vs. 2H20
- Progress on strategy development around customer growth, building better businesses, digital and risk
- Commenced separation of Australia Division into Direct Insurance Australia and Intermediated Insurance Australia to drive improved performance over time
- Business interruption provision and pre-tax charge of $1.15bn as announced on 20 November 2020
- $460m net loss after tax, cash earnings excluding unusual items of $462m equates to 15.5% cash ROE
- Capital strength maintained, supported by $776m capital raise, with CET1 ratio above the upper end of targeted range

GROSS WRITTEN PREMIUM

- Reported GWP growth of 3.8% over 1H20, or 4.1% adjusting for foreign currency translation effects
- Underlying GWP growth closer to 5% after allowing for estimated COVID-19 influences of around $50m, mainly in Australian personal lines
- Growth predominantly rate driven, with mid to high-single digit rate increases in commercial and home in Australia and solid rate increases in all key classes in New Zealand

INSURANCE PROFITABILITY

- 1H21 underlying insurance margin of 15.9%, higher than 15.1% in 2H20
- Estimated net benefit of $60-$70m from COVID-19 effects, mainly from lower motor claim frequency
- Adjusting for the COVID-19 benefit, underlying margin of around 14.2% compared to 14.1% in 2H20 (excluding 1% reserve release assumption, to align with the underlying margin definition from FY21)
- Stable overall underlying margins ex-COVID-19 compared to 2H20 reflect offsetting influences
- Margin pressure in Australian commercial long tail lines offset by the earn-through of higher rates, particularly in short tail commercial lines in Australia
- Firm recovery in reported margins to 17.9% from 13.5% in 1H20 and 6.6% in 2H20
- Favourable effect on reported margins from natural perils below allowances ($39m) and credit spreads ($51m) partly offset by modest strengthening of prior year reserves ($15m)

AUSTRALIA HIGHLIGHTS

- GWP growth of 4.6% over 1H20, due mainly to rate increases across personal and commercial lines
- Direct personal lines volume growth offset by intermediated personal lines, commercial volumes stable
- Solid 15.3% underlying margin due to COVID-19 claim benefits, mainly motor claim frequency
- Reported margin of 17.3% assisted by favourable natural peril costs, offset by reserve strengthening

NEW ZEALAND HIGHLIGHTS

- Local currency GWP growth of 2.8% largely rate driven with volume growth in motor portfolios
- Low-single digit rate increases across personal lines, high-single in intermediated commercial property
- Strong underlying (18.6%) and reported (20.4%) margins maintained compared to FY20

UNUSUAL MATTERS

- Ongoing proactive review of pricing systems and processes has resulted in a pre-tax charge of $75m to increase the provision for customer refunds to include four additional programs and administration costs
- Other items as flagged on 20 November 2020 in line with pre-tax charge of $70m to $90m

REINSURANCE, CAPITAL & DIVIDENDS

- Calendar 2021 catastrophe program successfully placed with second and third event drop-down covers of $50m (pre-quota share) finalised in January 2021
- Stronger shareholders' funds income vs. 2H20 owing to relative strength in investment markets
- Dividend of 7¢ per share, unfranked – ~37% of cash earnings, reflecting prudent approach
- Strong capital position with CET1 ratio at 1.19, and 1.12 after dividend

2. STRATEGY

Helping customers manage risk has been IAG's business for over 160 years, forming the heart of IAG's Purpose, ***to make your world a safer place***.

COVID-19 materially disrupted local and global markets and the lives of customers in 2020. In these uncertain times, IAG's Purpose is more important than ever and guides IAG's ambition to serve every Australian and New Zealander. Achieving this ambition requires being Purpose-led, customer focused and commercially disciplined.

Through IAG's investment in customer experience, simplification and agility over the last five years, it is well positioned for the future. IAG's trusted brands, supply chain scale, deep data assets and financial strength are key attributes, providing competitive advantage.

IAG's long-term objective remains: the delivery of top quartile Total Shareholder Return, with a sustainable growth profile. To realise this, IAG has reset its strategy to **'*create a stronger, more resilient IAG*'**. IAG is driving focus, adapting its business model and playing to its strengths to capitalise on trends shaping the operating environment.

Four strategic pillars provide focus, inform IAG's new operating model and underpin IAG's three to five year strategy:

Grow with our customers

- IAG will grow as Australians and New Zealanders grow by delivering unparalleled personalised service when customers need it most;
- IAG will focus the strength of its brands to meet the evolving needs of consumers and enable the next wave of growth in small businesses across Australia and New Zealand; and
- IAG will increase its customer reach to make the world safer for more Australians and New Zealanders.

Build better businesses

- IAG will help Australian and New Zealand businesses thrive by continuing to focus on underwriting expertise, active portfolio management and pricing excellence; supporting strong economies in its home markets; and
- IAG will evolve by investing in its core competencies, delivering consistent high-quality returns to shareholders and enhancing its competitive advantage.

Create value through digital

- IAG will be digital to the core by creating connected customer experiences that seamlessly assist and reward customers as they unlock the value of IAG's network; and
- IAG will transform customer experience while re-architecting core platforms and using intelligent automation to capture value.

Manage our risks

- IAG will manage the risks in its own business so that it can continue to manage the risks in its customers' lives, by building a strong, active risk culture and meeting its obligations to the communities it serves;
- IAG will invest in process, capability, infrastructure and operational excellence to create a stable, scalable and efficient business; and
- IAG will continue to be innovative and strengthen its capital platform, ensuring its customers are appropriately supported by its financial strength.

IAG's strategy balances strengthening the fundamentals of insurance while evolving to be a digital leader. It will ensure IAG is a stronger, more resilient organisation with increased customer reach.

Clear strategic focus

Purpose	Strategy
We make your world a safer place	Create a stronger, more resilient IAG

Focus	Approach	Outcomes
Grow with our customers	Deliver unparalleled personalised service when our customers need us the most	**More customers, more products and greater scale**
Build better businesses	Focus on underwriting expertise, active portfolio management and pricing excellence	**Stable earnings over time**
Create value through digital	Create connected experiences that seamlessly assist and reward our customers as they unlock the value of our network	**Better customer experiences at a lower cost**
Manage our risks	Actively manage capital and risk in our business so we can continue to manage the risks in our customers' lives	**Disciplined execution, enhanced accountability and appropriate returns**

3. GROUP RESULTS

FINANCIAL PERFORMANCE

GROUP RESULTS	1H20 A$m	2H20 A$m	1H21 A$m
Gross written premium	**5,962**	**6,173**	**6,188**
Gross earned premium	6,105	6,059	6,190
Reinsurance expense	(2,396)	(2,405)	(2,467)
Net earned premium	**3,709**	**3,654**	**3,723**
Net claims expense	(2,433)	(2,577)	(2,281)
Commission expense	(337)	(336)	(337)
Underwriting expense	(519)	(565)	(539)
Underwriting profit	**420**	**176**	**566**
Investment income on technical reserves	81	64	101
Insurance profit	**501**	**240**	**667**
Net corporate expense	(152)	213	(1,310)
Interest	(54)	(38)	(42)
Profit/(loss) from fee-based business	(2)	(21)	(13)
Share of profit/(loss) from associates	29	30	18
Investment income on shareholders' funds	50	(231)	138
Profit/(loss) before income tax and amortisation	**372**	**193**	**(542)**
Income tax expense	(90)	53	187
Profit/(loss) after income tax (before amortisation)	**282**	**246**	**(355)**
Non-controlling interests	20	(79)	(97)
Profit/(loss) after income tax and non-controlling interests (before amortisation)	**302**	**167**	**(452)**
Amortisation and impairment	(15)	(15)	(4)
Profit/(loss) attributable to IAG shareholders from continuing operations	**287**	**152**	**(456)**
Net profit/(loss) after tax from discontinued operations	(4)	-	(4)
Profit/(loss) attributable to IAG shareholders	**283**	**152**	**(460)**

Insurance Ratios - Continuing Business	1H20	2H20	1H21
Loss ratio	65.6%	70.5%	61.3%
Immunised loss ratio	65.6%	68.6%	61.0%
Expense ratio	23.1%	24.7%	23.6%
Commission ratio	9.1%	9.2%	9.1%
Administration ratio	14.0%	15.5%	14.5%
Combined ratio	88.7%	95.2%	84.9%
Immunised combined ratio	88.7%	93.3%	84.6%
Reported insurance margin	**13.5%**	**6.6%**	**17.9%**
Underlying insurance margin	**16.9%**	**15.1%**	**15.9%**

Key Financial Metrics (Total Operations)	1H20	2H20	1H21
Cash earnings ($m)	380	(101)	462
Reported ROE (average equity) (% pa)	9.0%	5.0%	(15.4%)
Cash ROE (average equity) (% pa)	**12.1%**	**(3.3%)**	**15.5%**
Basic EPS (cents)	12.28	6.60	(19.73)
Diluted EPS (cents)	12.16	6.38	(19.73)
Cash EPS (cents)	16.49	(4.37)	19.82
Diluted cash EPS (cents)	**15.98**	**(4.37)**	17.88
DPS (cents)	**10.00**	**0.00**	**7.00**
Probability of adequacy	90%	90%	90%
CET1 multiple	**1.15**	**1.23**	**1.19**
PCA multiple	1.80	1.97	2.04

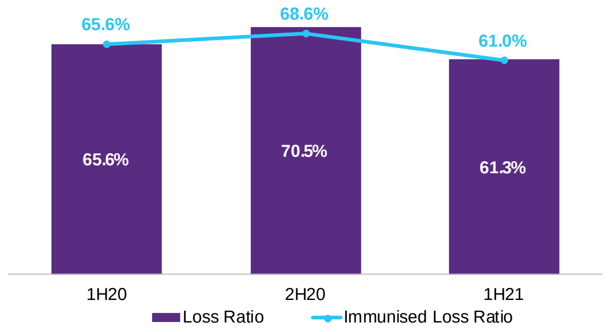
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A$	Balance Sheet (spot rate)			Income Statement (average rate)	
	1H20	2H20	1H21	1H20	1H21
New Zealand dollar	1.0419	1.0695	1.0717	1.0591	1.0730
Malaysian ringgit	2.8754	2.9502	3.1040	2.8510	3.0034

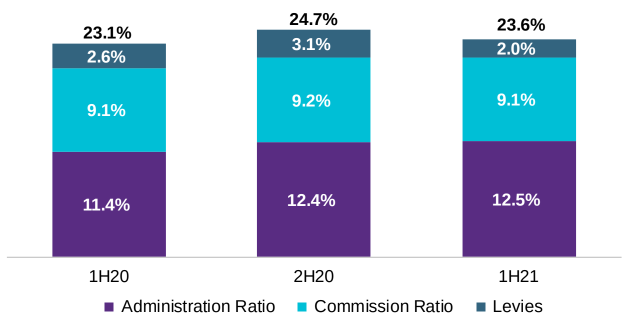
3. GROUP RESULTS

INSURANCE RATIOS

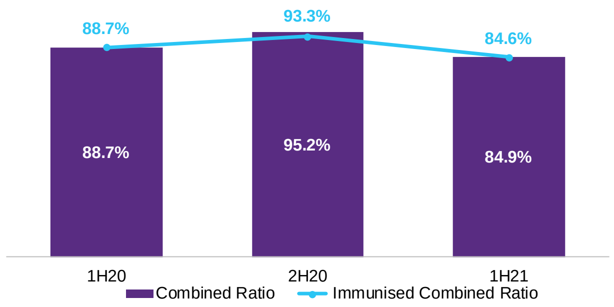
LOSS RATIO



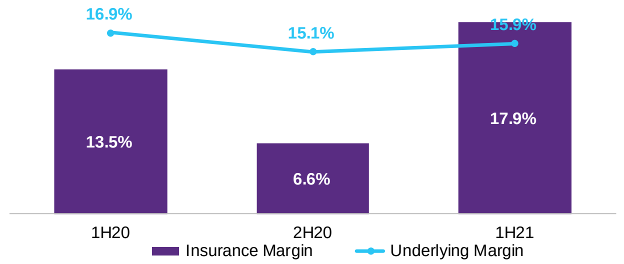
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



1H21 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A$m	New Zealand A$m	Corporate & Other A$m	Total A$m
Gross written premium	**4,819**	**1,368**	**1**	**6,188**
Gross earned premium	4,823	1,362	5	6,190
Reinsurance expense	(1,898)	(566)	(3)	(2,467)
Net earned premium	**2,925**	**796**	**2**	**3,723**
Net claims expense	(1,833)	(450)	2	(2,281)
Commission expense	(242)	(94)	(1)	(337)
Underwriting expense	(440)	(98)	(1)	(539)
Underwriting profit/(loss)	**410**	**154**	**2**	**566**
Investment income on technical reserves	95	8	(2)	101
Insurance profit/(loss)	**505**	**162**	**-**	**667**
Profit/(loss) from fee-based business	(5)	-	(8)	(13)
Share of profit/(loss) from associates	(1)	-	19	18
Total divisional results	**499**	**162**	**11**	**672**
Insurance Ratios				
Loss ratio	62.7%	56.5%		61.3%
Expense ratio	23.3%	24.1%		23.6%
Commission ratio	8.3%	11.8%		9.1%
Administration ratio	15.0%	12.3%		14.5%
Combined ratio	86.0%	80.6%		84.9%
Insurance margin	17.3%	20.4%		17.9%
Underlying insurance margin	15.3%	18.6%		15.9%

3. GROUP RESULTS

COVID-19 IMPACTS ON 1H21 PERFORMANCE

COVID-19 impacted IAG's 1H21 financial performance in various ways. These included:

- An estimated GWP reduction of approximately $50m compared to 1H20 (2H20: ~$80m reduction compared to 2H19), predominantly from lower new business opportunities in Australian personal lines during the lockdown in Victoria and reduced travel insurance premium. Business retention has held at high levels in most core portfolios. COVID-19 had a negligible impact on New Zealand GWP during the period;
- A pre-tax earnings benefit of approximately $100m from lower motor claim frequency, which was weighted to the September quarter when the lockdown in Victoria occurred;
- A partial offset to this earnings benefit of around $25m from claims incurred in other COVID-19 affected business classes such as landlords' insurance, travel insurance and commercial liability and the earn through of lower GWP; and
- A further offset from increased operating expenses relative to 1H20 of around $10m flowing from COVID-19 related measures and responses, mainly from employees 'working from home' and changes to offshore worksite arrangements.

In aggregate, COVID-19 had an estimated net positive impact on the 1H21 underlying insurance profit of around $60-$70m (~1.7% of NEP) compared to a net neutral impact in FY20. The COVID-19 impact on underlying margins is discussed in detail in Group Results and divisional commentary on Australia and New Zealand. All underwriting profit impacts are expressed on a post-quota share basis.

The provision for business interruption announced on 20 November 2020 is discussed under Unusual Matters. Due to the unusual nature and scale of the provision in 1H21, it has been shown within the net corporate expense line (2H20: $106m provision included in insurance profit).

Estimated adverse impact of ~$50m on 1H21 GWP from COVID-19

PREMIUMS

Reported GWP of $6,188m in 1H21 represented an increase of 3.8% over 1H20.

- Growth of 4.6% to $4,819m was achieved in Australia and comprised:
  - Rate increases to at least match claims inflation in short tail personal lines, with volume growth in direct personal lines offset by lower volumes through intermediated channels; and
  - High single digit average rate increases alongside stable volumes in commercial portfolios, a contrast to the pressure on volumes experienced in recent years in response to rate increases.
- Growth of 1.5% in New Zealand to $1,368m, including an unfavourable foreign exchange translation effect of around 130bps:
  - Both Business and Consumer delivered growth, driven by a combination of premium rates, strong retention and sound new business levels.

Underlying Group GWP growth was closer to 5% after allowing for estimated COVID-19 influences of ~$50m.

Reported GWP growth of 3.8% in 1H21…

…and growth of ~5% excluding estimated COVID-19 impacts

INSURANCE MARGIN

From FY21, IAG's underlying margin definition no longer factors in an allowance for reserve releases, reflecting IAG's view of uncertainty attached to long tail reserve development in the current economic and operating

3. GROUP RESULTS

environment. FY20 comparatives are reported on the previous basis, which included an allowance of 1% of NEP. Underlying margins continue to be adjusted for prior year reserve releases or strengthening, natural peril claim costs above or below related allowances and credit spread gains or losses.

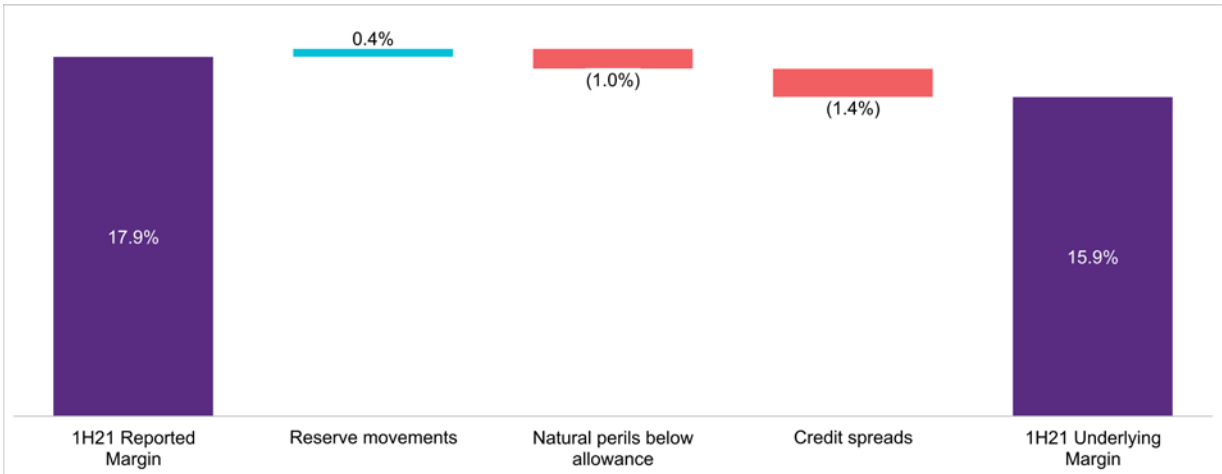
INSURANCE MARGIN IMPACTS - Continuing Business	1H20 A$m	2H20 A$m	1H21 A$m
Underlying insurance profit	**625**	**547**	**592**
Reserve releases/(strengthening)	5	(53)	(15)
Reserve release assumption	(37)	(37)	-
Natural perils	(419)	(485)	(290)
Natural peril allowance	320	321	329
Credit spreads	7	(53)	51
Reported insurance profit	**501**	**240**	**667**
Underlying insurance margin	**16.9%**	**15.1%**	**15.9%**
Reserve releases/(strengthening)	0.1%	(1.5%)	(0.4%)
Reserve release assumption	(1.0%)	(1.0%)	-
Natural perils	(11.3%)	(13.3%)	(7.8%)
Natural peril allowance	8.6%	8.8%	8.8%
Credit spreads	0.2%	(1.5%)	1.4%
Reported insurance margin	**13.5%**	**6.6%**	**17.9%**

IAG's 1H21 underlying insurance margin was 15.9%, higher than 15.1% in 2H20 (or 14.1% excluding 1% reserve releases) and lower than 16.9% in 1H20 (15.9% excluding 1% reserve releases). Features of the net movement in 1H21 compared to 2H20 were:

- A net benefit of around $60-$70m from COVID-19 effects. Excluding the benefit from COVID-19, the underlying margin was approximately 14.2%;
- Stable overall underlying margins ex-COVID-19 compared to 2H20 reflect the combination of offsetting influences including:
  - A modest drag from higher reinsurance costs;
  - A reduced headwind from lower interest rates impacting investment income compared to 2H20;
  - Further deterioration in current year profitability in Australian commercial long tail lines;
  - Mid-single digit growth in expenses; and
  - The positive effect of the earn-through of higher rates, particularly in short tail commercial lines in Australia.

Higher underlying insurance margin of 15.9%, vs. 15.1% in 2H20

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



3. GROUP RESULTS

The reported insurance profit of $667m in 1H21 was higher than both halves in FY20 and equates to a reported margin of 17.9% (13.5% in 1H20; 6.6% in 2H20). In addition to the underlying margin influences outlined above, this included:

- A favourable benefit from net natural peril experience of $39m;
- A $15m impact from strengthening prior year reserves, compared to reserve releases of $5m in 1H20 and a $53m strengthening in 2H20; and
- A favourable impact from the narrowing of credit spreads of $51m.

Higher reported insurance margin of 17.9% compared favourably with two preceding halves

The reported insurance profit reconciles to that in the Financial Report (Appendix 4D) after allowance for the customer refunds provision and the business interruption provision discussed under Unusual Matters, reclassified to net corporate expense for Investor Report purposes, as outlined below:

INSURANCE PROFIT	1H20 A$m	2H20 A$m	1H21 A$m
Investor Report	**501**	**240**	**667**
Customer refunds provision	(150)	(96)	(75)
Business interruption provision	-	-	(1,150)
Financial Report (Appendix 4D/4E)	**351**	**144**	**(558)**

This Investor Report treatment reflects the fact that the items concerned are not expected to be a feature of IAG's future earnings profile.

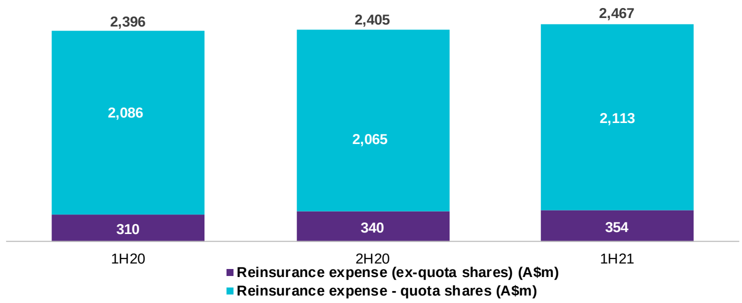
REINSURANCE EXPENSE

Increase in underlying reinsurance expense

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

The 1H21 reinsurance expense of $2,467m compares to $2,396m in 1H20, an increase of approximately 3%.

REINSURANCE EXPENSE



Quota share-related reinsurance expense increased broadly in line with gross earned premium growth. Non-quota share reinsurance expenses increased by 14% to $354m and reflected a combination of:

- Earned through impact of increased gross cover at the top end of the calendar 2020 main tower and extra drop-down covers;
- Slightly higher catastrophe reinsurance rates, stemming from the calendar 2020 renewal;
- Earned through impact of the cost of replacement covers purchased following heavy peril activity early in calendar 2020;
- Modest additional costs associated with the transition of aggregate cover from calendar to a financial year basis; and
- Low overall growth in IAG's risk exposures.

3. GROUP RESULTS

CLAIMS

IAG's immunised underlying loss ratio, which reflects trends in underlying or working claims, was 52.8% in 1H21, lower than 54.4% in 1H20 and 53.8% in 2H20. This ratio excludes all reserve releases or strengthening, natural peril costs and discount rate adjustments.

Improved underlying loss ratio driven by lower motor frequency

IMMUNISED LOSS RATIO Continuing Business	1H20 A$m	2H20 A$m	1H21 A$m
Immunised underlying net claims expense	**2,018**	**1,968**	**1,967**
Discount rate adjustment	1	71	9
Reserving and perils effects	414	538	305
Reported net claims expense	**2,433**	**2,577**	**2,281**
Immunised underlying loss ratio	**54.4%**	**53.8%**	**52.8%**
Discount rate adjustment	-	1.9%	0.3%
Reserving and perils effects	11.2%	14.8%	8.2%
Reported loss ratio	**65.6%**	**70.5%**	**61.3%**

Underlying claims trends

The underlying claims performance included the net effect of a number of factors. On the positive side, the ratio benefited from:

- Lower claims frequency across motor largely due to COVID-19 lockdowns in Victoria, and to a lesser extent in NSW;
  - The net COVID-19 benefit improved the underlying loss ratio by approximately 200bps;
  - Excluding the impact of COVID-19, the underlying claims ratio was modestly lower than 2H20, a positive driver for margins.
- An improvement in claims experience in Australia intermediated personal lines; and
- The earned-through effect of higher rates, particularly in short tail commercial lines in Australia.

Underlying claim trends marginally better than 2H20, ex COVID-19 benefits

These improvements were offset by two key factors:

- A deterioration in Australian commercial long tail classes compared to 1H20 and 2H20 mainly due to claims experience in professional risks and to a lesser degree in liability and workers' compensation, particularly due to higher than expected personal injury costs; and
- Increased average home claim costs across all major states associated with people spending more time at home due to COVID-19. This reflects a change in the mix of claims with fewer smaller claims, such as theft, and a greater number of larger value claims, such as fire.

Reserve Releases

Reduced prior period reserve strengthening of $15m in 1H21 compared to $53m in 2H20 (1H20: $5m reserve release). This outcome reflected more adverse claim development across Australian long tail classes than observed in recent years, including higher numbers of bodily injury claims and some deterioration in existing large claims.

Strengthening across long tail commercial lines in Australia

On 20 November 2020, IAG flagged a pre-tax charge of $70m to $90m for 1H21 to cover prior period reserve strengthening and an additional provision for customer refunds, which was $75m in 1H21.

The overall strengthening of $15m reflected two offsetting elements. Prior year reserve deterioration of around $40m occurred in commercial classes in Australia. Adverse trends appear to be driven by systemic issues where subdued economic conditions have enhanced focus on personal injury compensation. More specifically, the deterioration in Australian commercial classes included:

- ~$15m of workers' compensation reserve strengthening;
- ~$30m of professional risk reserve strengthening;
- ~$25m of strengthening related to liability classes; partially offset by
- Some positive claim settlements in commercial short tail classes of around $30m.

This prior period reserve deterioration in Australian commercial classes was partly offset by a positive release of around $25m, which included:

- Favourable short tail claims settlements of $18m in New Zealand; and
- A release of $7m in Australian personal lines (short tail releases partly offset by modest NSW CTP reserve strengthening).

Natural Perils

Net natural peril claim costs in 1H21 were $290m, which was $39m lower than the allowance for the period (1H20: $99m above allowance). This reflects relatively benign natural perils experience in the latter stages of the 2020 calendar year. As previously indicated, experience had been tracking broadly in line with the allowance through to the end of October.

Net natural peril claim costs $39m below allowance

1H21 NATURAL PERIL COSTS BY EVENT	A$m
East Coast Low (Wamberal) and North Island (NZ) storms (July 2020)	16
East Coast Low storms (July 2020)*	17
NSW (Armidale/Tamworth) and South East QLD hail (October 2020)*	17
South East QLD (Springfield) and NSW Halloween giant hail (October 2020)*	17
NZ Napier flood (November 2020)*	16
Other events (<$15m)	207
Total	**290**

** Net of reinsurance recoveries*

Notable losses included the East Coast Low in July and storm events that affected NSW and Queensland late in October. IAG had fully eroded the deductible for the calendar 2020 aggregate cover by 30 June 2020 which meant that these events were capped by reinsurance recoveries and contained overall net claim costs in 1H21. Net claim costs include recoveries of approximately $90m under the calendar 2020 aggregate cover.

EXPENSES

Total net operating expenses (commission and underwriting) were $876m in 1H21, 2.3% higher than 1H20. Gross underwriting expenses (ex levies and commissions paid or received) increased by 7.1% on 1H20, to $815m.

Additional COVID-19 related expenses

3. GROUP RESULTS

EXPENSES	1H20 A$m	2H20 A$m	1H21 A$m
Gross underwriting expense ex levies	761	801	815
Levies	169	199	92
Total gross underwriting expenses	**930**	**1,000**	**907**
Gross commission expense	506	503	502
Total gross expenses	**1,436**	**1,503**	**1,409**
Reinsurance commission revenue	(580)	(602)	(533)
Total net expenses	**856**	**901**	**876**

2H20 and 1H21 included approximately $50m and $10m (~$75m and ~$15m pre-quota share) respectively of additional cost incurred as a result of COVID-19, largely due to operating costs associated with 'working from home' and from the disruption of offshore service providers. Costs to close the AMI branch network in New Zealand were included in 2H20.

The mid-single digit increase in gross underwriting expense (ex levies) adjusted for these COVID-19 costs compared to 1H20 reflects an increase in compliance and governance costs, corporate insurance and employee provisions for annual leave.

The decrease in levies from $199m in 2H20 to $92m in 1H21 reflects a combination of a modest increase in ESL in NSW and a reduction to the TEPLA (Transitional Excess Profits and Losses Adjustment) provision, the adjustment mechanism to ensure NSW CTP profit recognition is in line with the legislated capped level.

The reported administration ratio on an ex-levies basis, increased to 12.5% (1H20: 11.4%) however was marginally higher than 12.4% in 2H20, largely reflecting the reasons outlined above.

The commission ratio of 9.1% has been steady over the past three halves, reflecting stable business mix.

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H21 was $101m, compared to $81m in 1H20. This outcome includes:

- The impact of higher average investment assets;
- Further pressure on an already depressed yield curve since 30 June 2020; and
- A significant positive effect of $51m from the narrowing of credit spreads, compared to a small profit of $7m in 1H20.

After allowance for the factors outlined above, the average yield achieved in 1H21 was significantly lower than that of 1H20, however only modestly lower than 2H20.

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

Lower average yield on technical reserves compared to 1H20

UNUSUAL MATTERS

Provision for potential business interruption claims and capital raising

IAG announced on 20 November 2020 that it would recognise a pre-tax provision of $1.24bn for potential business interruption claims. This followed the 18 November 2020 unanimous decision of the Supreme Court of New South Wales Court of Appeal (NSWCA), which determined that pandemic exclusions that refer to the Quarantine Act and subsequent amendments, rather than the Biosecurity Act, are not effective to exclude cover for losses associated with COVID-19.

IAG had exposure to policy wordings that referenced the Quarantine Act, which accounts for approximately 80% of the total provision recognised. The balance reflects potential exposure to prevention of access clauses that generally operate when actions of governments or other legal authorities cause business interruption by preventing or restricting access to premises.

Recognition of potential business interruption claims and decisive action to strengthen balance sheet

A pre-tax charge of $1.15bn has been included in the net corporate expense line in 1H21. Based on an actuarial review of assumptions including recent COVID-19 developments in NSW, Victoria and Queensland, no further change to the net central estimate or provision has been made at 31 December 2020.The net post-tax impact on IAG's current half year earnings is $805m.

To reinforce its capital position following recognition of the business interruption provision, IAG completed a $650m institutional placement on 20 November 2020 and raised $126m via a retail Share Purchase Plan which concluded on 23 December 2020. In total, $776m of new equity capital was raised and approximately 154 million new fully paid ordinary shares were issued.

IAG's view is that the intent of its business interruption policies is to not provide cover for any losses related to pandemics such as COVID-19. This view is shared by a number of insurers represented by the Insurance Council of Australia (ICA). Given this, an application for special leave to the High Court of Australia to appeal the NSWCA's judgment has been made. If an appeal proceeds, an outcome is expected in calendar year 2021.

Provision for customer refunds

An ongoing proactive review of pricing systems and processes saw a pre-tax provision raised in FY20 for multi-year pricing issues identified by IAG where discounts were not always applied in full to premiums. The provision has been updated to include four additional refund programs and associated administration costs. An overall pre-tax charge of $75m (post-quota share) for customer refunds has been recognised during the current period and included within the net corporate expense line. On 20 November 2020, IAG flagged a pre-tax charge of $70m to $90m for 1H21 to cover this additional provision and prior period reserve strengthening (1H21: $15m).

Ongoing proactive review of pricing systems and processes

Swann class action

On 6 October 2020 IAG agreed to a settlement of the class action brought against its subsidiaries, Swann Insurance (Aust) Pty Ltd (Swann) and Insurance Australia Limited. A pre-tax charge of $68m has been included in net corporate expense. The post-tax amount of $48m is in line with the previously advised post-tax impact of less than $50m, inclusive of all related costs and after insurance recoveries.

OTHER PROFIT AND LOSS DRIVERS

Net corporate expense

Net corporate expense in 1H21 amounted to a pre-tax loss of $1.31bn, which is excluded from cash earnings for dividend calculation purposes. There were four contributing elements to the overall charge:

- $1.15bn to reflect the potential impact of business interruption claims following the NSWCA judgment in November 2020;
- $68m for the October 2020 settlement of the Swann class action;

Abnormal items totalling $1.31bn pre-tax, principally the provision for business interruption claims

- $17m for restructuring costs associated with IAG's exit from the Victorian workers' compensation scheme on or before 30 June 2021; and
- $75m for an increase in the customer refunds provision.

CUSTOMER REFUNDS PROVISION	1H20 A$m	2H20 A$m	1H21 A$m
Gross expense	180	110	70
Quota share recovery	(30)	(14)	5
Corporate expense	**150**	**96**	**75**
Income tax	(45)	(29)	(23)
Non-controlling interest	(23)	(8)	2
Net expense	**82**	**59**	**54**

The expenses outlined above are discussed under Unusual Matters in Group Results except for costs associated with IAG's exit from Victorian workers' compensation which is discussed in the Australia Division commentary.

Fee-based business

Fee-based business contributed a loss of $13m in 1H21, compared to a loss of $2m in 1H20. This period's result comprised:

- A $7m profit (1H20: $8m profit) from IAG's role as agent under the Victorian workers' compensation scheme;
- A loss of approximately $3m from Motorserve's car servicing activities, which were acquired during FY20 (FY20: $3m loss); and
- A $17m loss reflecting investment in new businesses aligned with IAG's strategy and focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives, including:
  - Costs associated with the Safer Journeys crash detection and response service;
  - Customer Loyalty Platform, which is leveraging data and analytics to unify brands, products and services, and deliver better customer experiences with rewards for risk mitigating behaviours and loyalty;
  - Losses of $3m from the accelerated development of the Carbar digital car-trading platform business, in which a 51% interest was acquired at the end of FY19; and
  - Net costs from the Ambiata specialist data activation business and from the innovation hubs run by Firemark Labs in Sydney and Singapore.

Fee-based loss of $13m with Victoria workers' compensation profit of $7m

Consistent with previous guidance, IAG expects a similar-sized pre-tax loss from fee-based income in 2H21 (compared to $13m in 1H21), even after allowing for no further income beyond 1H21 from IAG's role as agent under the Victorian workers' compensation scheme.

Asian interests

IAG's focus is on its core Australian and New Zealand businesses. As a consequence, IAG continues to weigh up options for its remaining Asian general insurance interests, including divestments where appropriate.

Options for remaining Asian assets continue to be evaluated

IAG's remaining Asian interests are:

- 49% in AmGeneral Holdings Berhad (AmGeneral) in Malaysia (carrying value $406m);
- 80.4% in AAA Assurance Corporation in Vietnam; and

- 16.9% in Bohai Property Insurance Company Ltd (Bohai) in China which is included in shareholders' funds investments.

The combined contribution from associates was a profit of $18m (1H20: $29m), largely derived from AmGeneral, the general insurance arm of Malaysia's AmBank Group.

SHARE OF PROFIT/(LOSS) FROM ASSOCIATES	1H20 A$m	2H20 A$m	1H21 A$m
Malaysia	20	22	20
India	16	6	-
Asia support costs	(7)	3	-
Other	-	(1)	(2)
Total share of profit/(loss) from associates	**29**	**30**	**18**

AmGeneral reported GWP of $277m, relatively flat on 1H20 ($279m). In local currency terms, GWP increased by around 5%, assisted by new product initiatives and government incentives for new car purchases. AmGeneral's 1H21 insurance margin of 15.8% declined modestly relative to 16.2% in 1H20, resulting in an insurance profit of $38m, ~7% below 1H20. This reflects lower investment income, while underwriting profits improved modestly, mainly due to COVID-19 related motor claim frequency benefits.

IAG received a dividend of $32m from AmGeneral in 1H21.

Investment income on shareholder's funds

Investment income on shareholders' funds was a profit of $138m, a marked recovery compared to a loss of $181m in FY20. The strong performance was the result of:

- The equity market staging a sharp recovery in 1H21;
- Positive mark-to-market impacts in alternative asset classes, primarily from higher yielding credit strategies, global convertible bonds and hedge funds; partially offset by
- A further $6m write-down of IAG's 16.9% interest in Bohai, reflecting the challenging operating environment for that business which is placing pressure on its financial performance.

At 31 December 2020, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was 73%, a comparable level to nearly 75% at the end of FY20.

Profit on shareholders' funds includes strong market performance

Tax expense

IAG reported an overall tax credit of $187m in 1H21 (1H20: $90m expense), largely due to the recognition of the $1.15bn pre-tax loss associated with the provision for business interruption claims. Excluding the effect of this provision, IAG's effective tax rate (pre-amortisation and impairment) was ~26%.

Contributory elements reconciling the 1H21 effective tax rate to the Australian corporate rate of 30% were:

- 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.

Normalised effective 1H21 tax rate of ~26%

Non-controlling interests

Non-controlling interests increased IAG's losses after tax by $97m, compared to an increase in profits after tax of $20m in 1H20.

Non-controlling interests reflect significantly higher IMA earnings

Non-controlling interests are principally represented by 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 a significantly higher profit in 1H21 owing to:

- The reduced number and size of major peril events in NSW and Victoria;
- COVID-19 related motor claim frequency benefits; and
- IMA's reduced share of the provision for customer refunds, compared to FY20.

Amortisation

A lower amortisation and impairment expense of $4m (1H20: $15m) reflects the full amortisation of acquired intangibles associated with the AMI business. The current remaining balance of acquired intangibles is expected to be largely amortised by the end of next financial year.

NET PROFIT/(LOSS) AFTER TAX AND EARNINGS PER SHARE

A net loss after tax of $460m compared to a profit of $283m in 1H20 reflected the aforementioned items.

Diluted cash earnings per share (cash EPS) in 1H21 was 17.88 cents per share (cps), an increase of 11.9% compared to 1H20. Reported earnings per share (EPS) in 1H21 was (19.73) cps, compared with 12.28cps in 1H20, and on a diluted basis was (19.73) cps (1H20: 12.16cps).

11.9% increase in diluted cash EPS to 17.88 cents

1H21 basic cash EPS was calculated on higher weighted average shares on issue (excluding treasury shares) of 2,331.4m shares (1H20: 2,304.9m), reflecting the shares issued as part of the Institutional Placement and Share Purchase Plan. Diluted cash EPS was based on 2,707.8m shares (1H20: 2,508.6m shares) after allowance for potential equity issuance from hybrid and debt conversion.

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,311.0
Institutional Placement - November 2020	128.7
Share Purchase Plan - December 2020	25.3
Balance at the end of the financial year	**2,465.0**
Average weighted shares on issue	2,336.4
Less: Treasury shares held in trust	(5.0)
Average weighted shares on issue - cash EPS	**2,331.4**
Add: Treasury shares held in trust	5.0
Add: Potential dilutionary issues from hybrid debt instruments	371.4
Average weighted potential shares on issue - diluted cash EPS	**2,707.8**

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

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

3. GROUP RESULTS

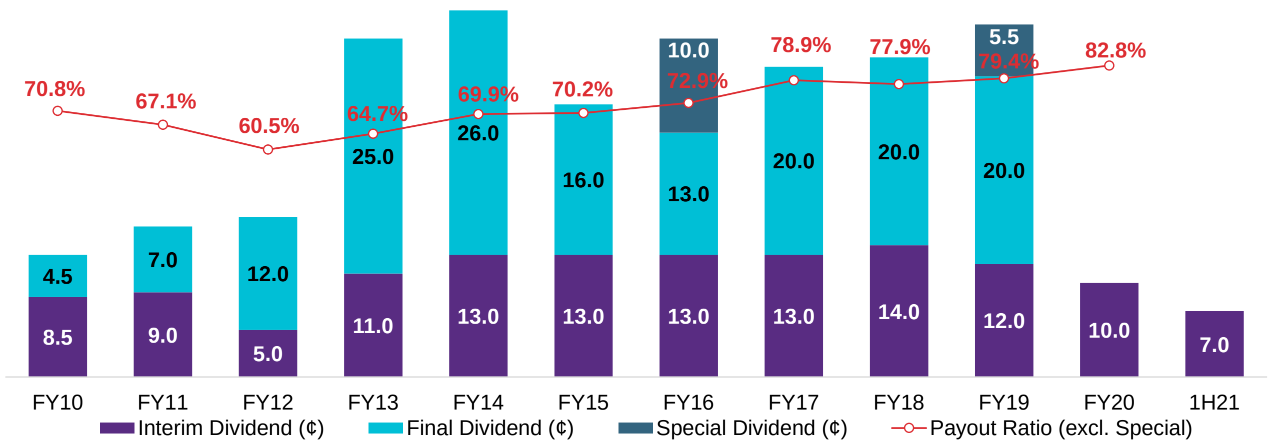
CASH EARNINGS	1H21 A$m
Net profit/(loss) after tax	**(460)**
Acquired intangible amortisation and impairment	4
Unusual items:	
- Business interruption provision	1,150
- Customer refunds provision	75
- Swann class action	68
- Victorian workers' compensation restructure cost	17
- Tax effect on net corporate expense	(394)
- Non-controlling interest in net corporate expense	2
Cash earnings	**462**
Dividend payable	**173**
Cash payout ratio	**37.4%**

DIVIDEND

The Board has determined to pay an interim dividend of 7 cents per share, with no franking (1H20: 10.0cps, 70% franked). The interim dividend is payable on 30 March 2021 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 17 February 2021.The interim dividend equates to a payout ratio of around ~37% of 1H21 cash earnings. IAG's dividend policy is to pay out 60-80% of full year cash earnings.

Interim dividend of 7 cents – around 37% of 1H21 cash earnings

DIVIDEND HISTORY – FY10-1H21



As at 31 December 2020, IAG held a negligible franking balance, including its 70% entitlement to franking held by IMA.

In addition to capital management activity in recent years, the depletion of IAG's franking balance reflects the absence of taxable earnings in Australia in FY20 and 1H21 which was influenced by severe net natural peril claim costs and adverse reserving, including the business interruption provision in 1H21. This will impact IAG's capacity to frank eligible distributions over the short-to-medium term.

As a result, IAG expects no franking will apply to any ordinary dividends that it may declare and pay during calendar 2021, and zero franking will also apply to relevant distributions on the Capital Notes in the period to 30 June 2021.

3. GROUP RESULTS

The dividend reinvestment plan (DRP) will operate for the interim dividend for DRP-registered shareholders as at 5pm AEDT on 18 February 2021. 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 likely to be purchased on-market. Information about IAG's DRP is available at http://www.iag.com.au/shareholder-centre/dividends/reinvestment.

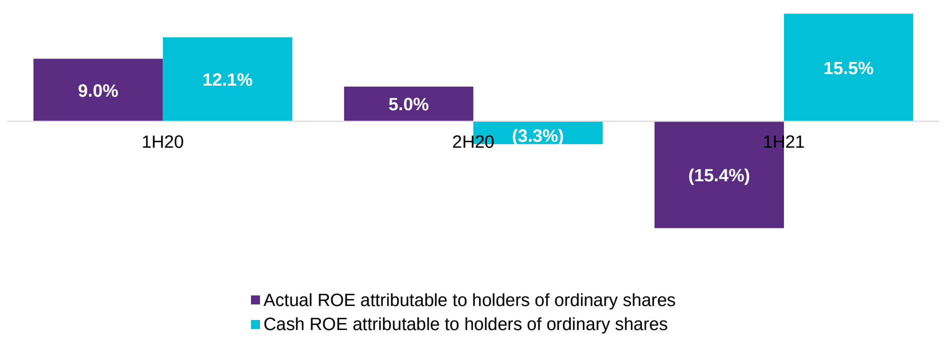
RETURN ON EQUITY

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

Cash ROE of 15.5%

IAG's current long-term cost of capital is approximately 8%, equating to a cash ROE target of approximately 12-13%. In 1H21, IAG reported a cash ROE of 15.5% (1H20: 12.1%).

RETURN ON EQUITY (ANNUALISED)



CAPITAL

IAG maintained its capital strength in 1H21, supported by the $776m equity capital raise in November and December 2020. At 31 December 2020 IAG's CET1 ratio was 1.19, and 1.12 after allowance for payment of the interim dividend, against a target benchmark of 0.9-1.1.

Strong capital position maintained

IAG's debt to total tangible capitalisation ratio at 31 December 2020 was 36.1%, towards to the mid-point of its targeted 30-40% range. This follows the $450m subordinated debt issue on 24 August 2020.

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

IAG's probability of adequacy for the outstanding claims liability remained 90% at 31 December 2020.

3. GROUP RESULTS

NEW DIVISIONAL OPERATING MODEL IN AUSTRALIA

IAG announced on 2 November 2020 that the Australia Division will be split into Direct Insurance Australia and Intermediated Insurance Australia. The new operating model will provide greater clarity on roles and responsibilities and is more aligned to IAG's brands and customer propositions. IAG will report separate results for the two new divisions for the FY21 result and restate comparative results accordingly.

FY21 OUTLOOK

Consistent with the approach adopted when the FY20 result was presented in August 2020, IAG has determined not to provide guidance for FY21. This decision will be reviewed periodically.

4. AUSTRALIA

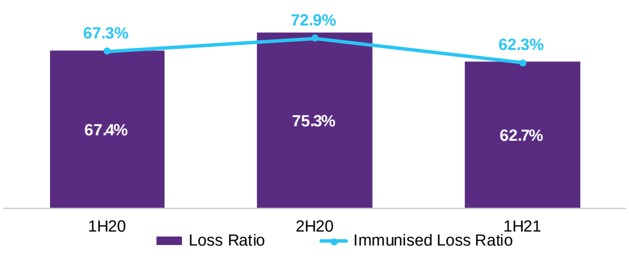
FINANCIAL PERFORMANCE

AUSTRALIA	1H20 A$m	2H20 A$m	1H21 A$m
Gross written premium	**4,608**	**4,759**	**4,819**
Gross earned premium	4,739	4,677	4,823
Reinsurance expense	(1,859)	(1,835)	(1,898)
Net earned premium	**2,880**	**2,842**	**2,925**
Net claims expense	(1,940)	(2,141)	(1,833)
Commission expense	(245)	(242)	(242)
Underwriting expense	(420)	(440)	(440)
Underwriting profit	**275**	**19**	**410**
Investment income on technical reserves	74	52	95
Insurance profit	**349**	**71**	**505**
Profit/(loss) from fee-based business	6	(17)	(5)
Share of profit/(loss) from associates	-	(1)	(1)
Total divisional result	**355**	**53**	**499**

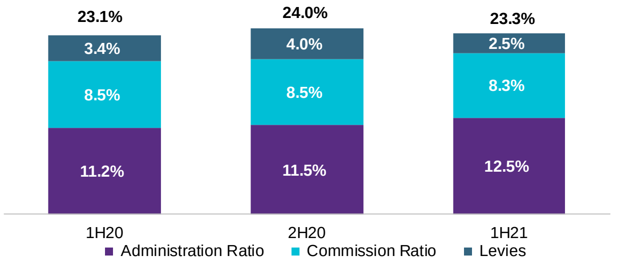
Insurance Ratios	1H20	2H20	1H21
Loss ratio	67.4%	75.3%	62.7%
Immunised loss ratio	67.3%	72.9%	62.3%
Expense ratio	23.1%	24.0%	23.3%
Commission ratio	8.5%	8.5%	8.3%
Administration ratio	14.6%	15.5%	15.0%
Combined ratio	90.5%	99.3%	86.0%
Immunised combined ratio	90.4%	96.9%	85.6%
Reported insurance margin	12.1%	2.5%	17.3%
Underlying insurance margin	16.1%	13.9%	15.3%

INSURANCE RATIOS

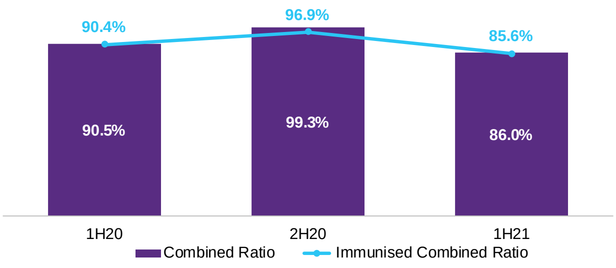
LOSS RATIO



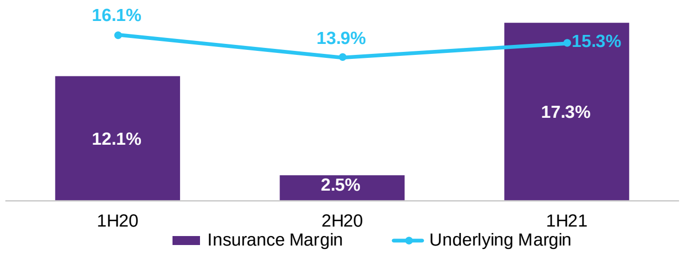
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



4. AUSTRALIA

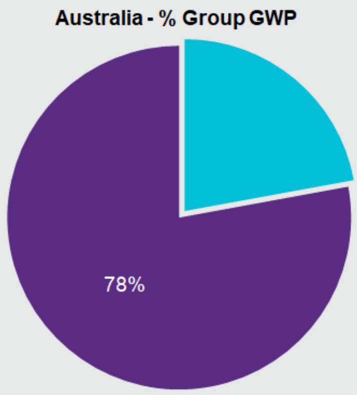
EXECUTIVE SUMMARY

Australia snapshot

- IAG is the largest personal lines insurer in Australia, offering motor and home products across the country under a range of brands, as well as CTP offerings in NSW, the ACT and South Australia, under brands including NRMA Insurance, SGIO and SGIC
- IAG also sells a range of commercial insurance products across Australia, primarily under the CGU, WFI, SGIO and SGIC brands. IAG's commercial offering has a strong SME emphasis, and a leading market share in rural areas
- Personal lines are predominantly sold directly through call centres, branches and digital channels, while commercial lines mainly pass through intermediaries

1H21 Performance

- GWP grew by 4.6%, due mainly to rate increases across both personal and commercial lines
- Mid to high-single digit rate increases in commercial and home
- Volume growth in personal lines direct channels, offset by reduced volumes through personal lines intermediaries, stable volumes in commercial
- Underlying margin strength due to COVID-19 claim benefits
- Ex-COVID-19, underlying profitability slightly above 2H20
- Favourable natural peril costs offset by reserve strengthening



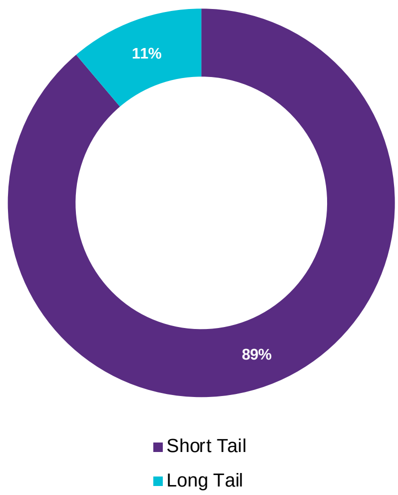
PREMIUMS

Australia reported GWP of $4,819m in 1H21, which was 4.6% above 1H20. Most of this growth was driven by higher rates across personal short tail and commercial portfolios and stable volumes in commercial. Excluding COVID-19 effects estimated at ~$50m, GWP growth would have exceeded 5%.

Personal GWP	1H20 A$m	2H20 A$m	1H21 A$m	GWP Growth 1H21 vs 1H20
Motor	1,574	1,620	1,597	1.5%
Home	1,261	1,263	1,332	5.6%
Niche & Other	65	55	61	(6.2%)
Total Short Tail	**2,900**	**2,938**	**2,990**	**3.1%**
Long Tail	364	375	377	3.6%
Total GWP	**3,264**	**3,313**	**3,367**	**3.2%**

Commercial GWP	1H20 A$m	2H20 A$m	1H21 A$m	GWP Growth 1H21 vs 1H20
Short Tail	914	958	985	7.8%
Long Tail	430	488	467	8.6%
Total GWP	**1,344**	**1,446**	**1,452**	**8.0%**
Total AUSTRALIA GWP	**4,608**	**4,759**	**4,819**	**4.6%**

PERSONAL 1H21 GWP - TAIL



4. AUSTRALIA

Personal short tail

Compared to 1H20, personal short tail GWP growth was 3.1%. This reflects the combination of rate increases and volume reductions across home and motor. Volume growth in direct personal lines was offset by lower volumes through intermediated channels. Renewal levels for both motor and home remained high and stable.

Personal short tail GWP is estimated to have been reduced by approximately $35m from COVID-19, primarily from lower new business opportunities in motor and home during the lockdown in Victoria and reduced travel insurance premium.

Motor GWP increased 1.5% compared to 1H20. Volumes were predominantly supported by "Every car is worth protecting", NRMA's Third Party, Fire & Theft $10/month campaign.

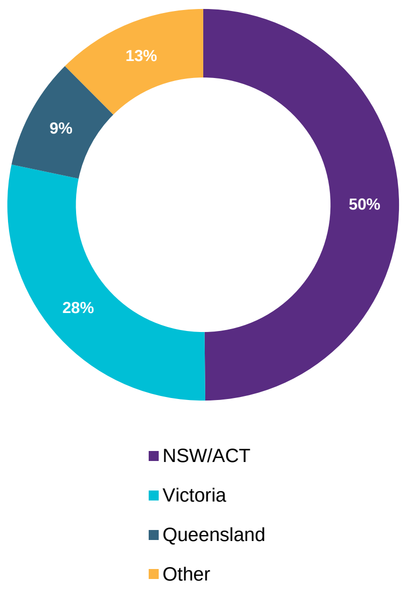
Excluding this campaign, average rate growth of ~3% was broadly in line with claim inflation pressures and volumes were lower, comprising:

- Low single digit growth in Victoria despite the COVID-19 lockdown impact on new business;
- A relatively flat outcome in NSW; and
- Losses in IAG's intermediated channels in response to targeted rate increases.

Home GWP rose by 5.6% against 1H20. This reflected:

- Average rate increases of ~6%, which largely met claims inflation and the higher natural peril allowance;
- Higher ESL collection which added approximately 1% to growth; and
- Reduced volumes, mainly in the intermediated channel, NSW and WA, with relatively flat volumes in Victoria.

PERSONAL 1H21 SHORT TAIL GWP – STATE/TERRITORY

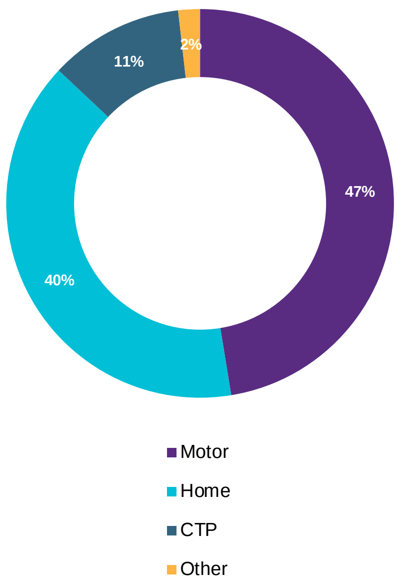


Personal long tail

Personal long tail (CTP) GWP was 3.6% higher than 1H20, and reflected:

- A more than doubling of GWP in SA, reflecting IAG's improved competitive position and leading claims service rating. IAG's market share grew to ~31%, up from 19% in December 2019, while all insurers remain priced at the floor set by the regulator;
- An approximate 3% decline in NSW GWP, due to price reductions in March and July 2020, partially offset by some volume gain. IAG's share of NSW CTP registrations (on a 12-month rolling average GWP basis) has reduced to 31.9% and is slightly ahead of 2H20 (1H20: 32.5%); and
- Close to a 30% decrease in ACT GWP, with lower prices due to scheme reform effective 1 February 2020, as well as some volume losses due to competitive pressure. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) of 58% has reduced from 60% in 1H20.

PERSONAL 1H21 GWP - CLASS



Commercial

Commercial GWP grew by 8.0% to $1,452m compared to 1H20. This followed a 1.4% contraction in 2H20. Both periods included a modestly adverse COVID-19 impact. Commercial rate increases remained a dominant feature, with some modest volume gains a contrast to the pressure on volumes experienced in recent years in response to rate increases. Major influences included:

- Average rate increases of ~7% across 1H21 in line with expectations held at the beginning of the year;

4. AUSTRALIA

- Rate movements that continued to vary by segment. Workers' compensation and many SME products achieved single-digit rate increases, whereas WFI and speciality lines such as liability, property and construction and engineering achieved double-digit rate increases; and
- High and stable retention rates.

Other features of commercial GWP performance in 1H21 were:

- A small negative estimated COVID-19 related impact of ~$15m from reduced new business opportunities in SME was less than expected, reflecting government support measures;
- Workers' compensation GWP increased by around 1%, primarily reflecting focused portfolio activity in the ACT and Tasmanian schemes and the impact of lower wage declaration due to COVID-19;
- Crop volumes have improved compared to 1H20, with drought conditions in NSW and Queensland less severe than prior periods;
- Underwriting agencies delivered low double-digit GWP growth compared to 1H20, driven by the continued strong performance of the NTI heavy haulage business and rate-driven growth in Strata; and
- Long tail classes contributed 32% of commercial GWP in 1H21.

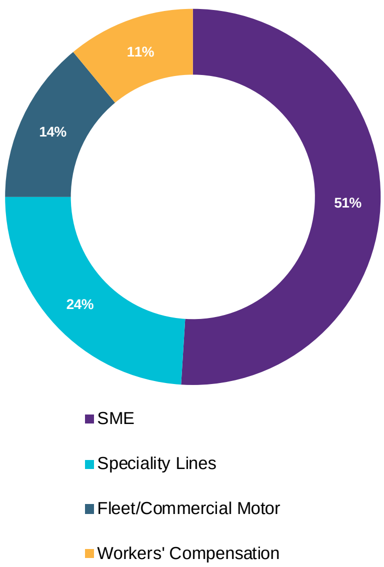
Customer Initiatives

A series of initiatives to provide assistance to all customers suffering hardship as a result of COVID-19 was announced in 2H20 and most measures have been extended to 31 March 2021. These formed part of the Customer Help Program and around 180,000 policies have been amended to assist customers.

The Australia Division continues to enhance its product offerings, strengthen partnerships and improve the quality of customer service. In 1H21 this included:

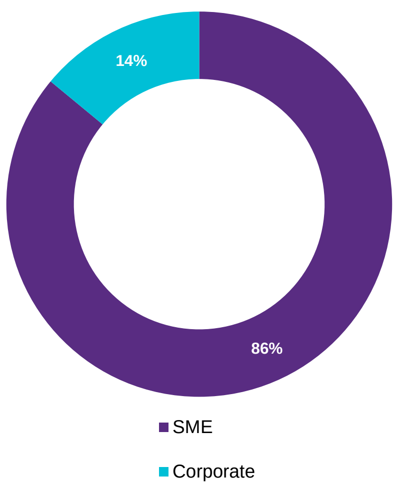
- The launch of NRMA's new home insurance campaign, First Saturday, which aims to help customers make their homes safer. By setting achievable risk reduction tasks on the first Saturday of each month it is influencing behaviour, with an average of 1 in 3 people surveyed taking action and customers signing up for over 97,000 task reminders;
- Establishing Home Trades Hub Australia (HTHA) in August 2020 as a joint venture with RACV, to deliver home-adjacent services to IAG and RACV customers nationally. Leveraging a network of qualified tradespeople and professionals, HTHA offers a single point of delivery for a comprehensive range of repair, maintenance and security services;
- The launch of NRMA's motor insurance campaign, "Every car is worth protecting". This campaign aimed to help customers who couldn't afford comprehensive cover or were being forced to cancel with other insurers, by offering Third Party Fire & Theft cover for $10/month for 12 months;
- NRMA Motorserve (acquired February 2020) continuing to perform its car servicing activities as well as customer hub functions. Customer hubs provide a one-stop shop, bringing together a range of services including vehicle assessment, repair, servicing and onsite mobility options to provide a better experience for customers. There are plans to double the footprint of nine sites in FY21;
- Repairhub, a majority-owned joint venture with RACV and two repair partners, continued to improve the consistency and quality of repairs as well as customer experience by getting cars back on the road quickly. Repairhub presently covers ten sites in metropolitan centres, with plans for four sites in the second half of FY21; and
- Improvements to comply with the General Insurance Code of Practice 2020. IAG assisted over 2,000 customers under the "Supporting

COMMERCIAL 1H21 GWP – CLASS



A range of new customer initiatives focused on loyalty, service and well-being

COMMERCIAL 1H21 GWP – MARKET SEGMENT



Vulnerable Customers" and "Financial Hardship" provisions, effective 1 January 2021.

Digital Initiatives

Investment in digital initiatives is an ongoing priority for the Australia Division and developments in 1H21 included:

- Continued online sales channel growth, with NRMA conducting ~36% of new business sales and renewals online (~34% in FY20);
- A ~7% increase in customer-initiated digital self-service interactions for NRMA Insurance, SGIO and SGIC brands;
- Further investment in SME Direct digital capability, resulting in 23% GWP growth for the NRMA branded version of this product;
- The launch of a simplified Direct Small Business product with a digital purchasing experience for more than 600 occupations; and
- The development of a Total Loss Prediction model that uses motor claim lodgement information and proactively prepares the customer for a total loss, with a high level of accuracy.

Ongoing progress on digital projects

New divisional operating model in Australia

IAG announced on 2 November 2020 that the Australia Division will be split into Direct Insurance Australia and Intermediated Insurance Australia. The new operating model will provide greater clarity on roles and responsibilities and is more aligned to IAG's brands and customer propositions.

Australia division to be split into segments reflecting product distribution

IAG will report separate results for the two new divisions for the FY21 result and restate comparative results accordingly.

In 1H21, the business entities and products that will form Direct Insurance Australia accounted for 59% of the Australia Division's GWP, or 46% of Group GWP. Intermediated Insurance Australia's contribution was 41% and 32% respectively on the same basis. Profitability is currently firmly skewed in favour of Direct Insurance Australia.

REINSURANCE EXPENSE

Australia's reinsurance expense was $1,898m, up 2% compared to $1,859m in 1H20. The underlying reinsurance expense was higher than 1H20, reflecting the combination of:

- Modest overall exposure growth;
- Earned through impact of increased gross cover at the top end of the calendar 2020 main tower and extra drop-down covers;
- Earned through impact of the cost of replacement covers purchased following heavy peril activity early in calendar 2020; and
- Modest additional costs associated with the transition of aggregate cover from calendar to a financial year basis.

INSURANCE PROFIT

Australia reported an insurance profit of $505m, compared to $349m in 1H20. This equates to a higher reported insurance margin of 17.3%, compared to 12.1% recorded in 1H20 and 2.5% in 2H20, primarily reflecting natural peril experience below allowance and credit spread gains in 1H21.

Reported profitability improved significantly

4. AUSTRALIA

INSURANCE MARGIN IMPACTS Australia	1H20 A$m	2H20 A$m	1H21 A$m
Underlying insurance profit	**463**	**395**	**444**
Reserve releases/(strengthening)	(7)	(57)	(33)
Reserve release assumption	(29)	(28)	-
Natural perils	(362)	(464)	(239)
Natural peril allowance	277	278	282
Credit spreads	7	(53)	51
Reported insurance profit	**349**	**71**	**505**
Underlying insurance margin	**16.1%**	**13.9%**	**15.3%**
Reserve releases/(strengthening)	(0.2%)	(2.0%)	(1.1%)
Reserve release assumption	(1.0%)	(1.0%)	-
Natural perils	(12.6%)	(16.3%)	(8.2%)
Natural peril allowance	9.6%	9.8%	9.6%
Credit spreads	0.2%	(1.9%)	1.7%
Reported insurance margin	**12.1%**	**2.5%**	**17.3%**

Australia's underlying margin of 15.3% was lower than 16.1% in 1H20, however improved on 13.9% in 2H20. As outlined in greater detail in the Group Results section, two key elements should be noted to assist with comparisons:

- Underlying margins in 1H20 and 2H20 assumed a normalised level of reserve releases of 1% of NEP, in line with IAG's definition of underlying margins at the time, whereas no normalised releases are assumed from 1H21; and
- 1H21 includes a net COVID-19 benefit of around $60-$70m (~2.2% of NEP), predominantly from reduced motor claims frequency, whereas 2H20 included a small net negative impact.

Adjusting for COVID-19 and using comparable reserve release assumptions, underlying margins slightly higher

The 1H21 underlying margin was 13.1% excluding the impact of COVID-19, which was a small increase over 2H20 (12.9%, excluding 1% normalised reserve release assumption).

The main drivers of Australia's underlying and reported insurance profit are discussed in more detail below.

Underlying Claims Experience

Australia's underlying claims ratio (excluding reserve movements, natural perils and discount rate adjustments) was 53.0%, an improved outcome compared to 54.5% and 54.6% in 1H20 and 2H20 respectively.

IMMUNISED LOSS RATIO Australia	1H20 A$m	2H20 A$m	1H21 A$m
Immunised underlying net claims expense	**1,570**	**1,552**	**1,551**
Discount rate adjustment	1	68	10
Reserving and perils effects	369	521	272
Reported net claims expense	**1,940**	**2,141**	**1,833**
Immunised underlying loss ratio	**54.5%**	**54.6%**	**53.0%**
Discount rate adjustment	0.1%	2.4%	0.4%
Reserving and perils effects	12.8%	18.3%	9.3%
Reported loss ratio	**67.4%**	**75.3%**	**62.7%**

The underlying claims performance included the net effect of a number of factors. On the positive side, the ratio benefited from:

4. AUSTRALIA

- Lower claims frequency across motor largely due to the COVID-19 lockdown in Victoria, and to a lesser extent in NSW;
  - The net COVID-19 benefit improved Australia's underlying loss ratio by almost 300bps;
  - Excluding COVID-19, the underlying claims ratio was modestly higher than 2H20.
- An improvement in claims experience in intermediated personal lines due to active portfolio management;
- The earned-through effect of higher rates; and
- Lower large loss experience across property classes including packages.

These improvements were offset by two key factors:

- A deterioration in commercial long tail compared to 1H20 and 2H20 mainly due to claims experience in professional risks and to a lesser degree in liability and workers' compensation, particularly due to higher than expected personal injury costs; and
- Increased average home claim costs across all major states associated with people spending more time at home due to COVID-19. This reflects a change in the mix of claims with fewer smaller claims, such as theft, and a greater number of larger value claims, such as fire.

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

Reserve Releases

Prior year reserve strengthening of $33m includes the net impact of:

- Higher claim costs in commercial long tail classes, particularly due to higher than expected personal injury costs; partially offset by
- Short tail claims costs developing more favourably than expected, due to lower than expected motor frequency, together with lower net average claim sizes for motor and home.

A peril cost benefit relative to allowances, partly offset by prior year strengthening

Natural Perils

Losses from natural perils (net of reinsurance) totalled $239m, which were $43m lower than the 1H21 allowance. Losses included the storm and hail events that affected the NSW and Queensland region late in October 2020. Two of these events were capped by reinsurance aggregate recoveries and contributed $34m of net claim costs.

In comparison, Australia experienced severe bushfires as well as hail and thunderstorms in 1H20, which resulted in net losses from natural perils that were $85m higher than the period's allowance.

A detailed list of significant natural perils costs across Australia is available in the Group Result section.

Expenses

Australia's reported expenses totalled $682m in 1H21, compared to $665m in 1H20. The increase includes:

- Increased operating expenses relative to 1H20 stemming from COVID-19, including those incurred in the movement of the majority of IAG's workforce to a 'working from home' basis and from the temporary unavailability of offshored roles due to local lockdowns; and

Higher expenses due to COVID-19 and ESL

- An increase in ESL driven by NSW home rates in 1H21 compared to 1H20.

The reported expense ratio was 23.3% (1H20: 23.1%). On an ex-levies basis the administration ratio increased to 12.5% (1H20: 11.2%).

FEE-BASED INCOME

IAG's role as agent for Victorian workers' compensation scheme to end

Fee-based income in Australia will in future comprise contributions from two main sources:

- Investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives; and
- The car servicing operations of Motorserve, an acquisition that was completed during 2H20.

Fee-based income in FY21 will include the last contribution from IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government. IAG informed WorkSafe Victoria in December 2020 it would not be accepting the offer of a two-year contract extension to its role as agent under the scheme. A provision for restructuring costs associated with IAG's exit, which will be effective on or before 30 June 2021, is included in the Group's net corporate expenses.

The loss from fee-based operations in 1H21 was $5m (1H20: $6m profit). This included:

- An overall contribution of $7m (1H20: $8m) from the Victorian workers' compensation business. A similar underlying performance was achieved after allowance for $2m of prior period fee income (1H20: $5m), which is typically reported in the opening half of the financial year;
- A loss of approximately $3m (FY20: $3m loss) from Motorserve's car servicing activities, largely due to the impact of the NSW lockdown on volumes; and
- Net costs associated with digital initiatives of around $8m.

MARKET REGULATION AND LEGISLATIVE REFORM

Royal Commission legislation passed

The Australian Government agreed to act on all the recommendations of the **Royal Commission into Misconduct** in the Banking, Superannuation and Financial Services Industry.

- On 12 November 2020, the Treasurer the Hon Josh Frydenberg introduced the **Financial Sector Reform (Hayne Royal Commission Response) Bill 2020** into the House of Representatives, including new rules prohibiting the hawking of financial products, a Deferred Sales Model for add on insurance, making claims handling a financial service, a duty to take reasonable care to not misrepresent, and breach reporting. The Bill was subsequently debated and passed by the House of Representatives on 9 December 2020 and the Senate on 10 December 2020 and received Royal Assent on 17 December 2020.

In due course, the Government will also release Exposure Draft legislation to:

- Establish a **compensation scheme of last resort**; and
- Extend the provisions modelled on the Banking Executive Accountability Regime (BEAR) to all entities regulated by APRA through the new **Financial Accountability Regime** (FAR).

These measures will be introduced to Parliament by 30 June 2021.

A range of other Government and regulatory reviews with implications for the general insurance industry are in progress or have recently been completed:

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Range of other government and regulatory reviews in progress or recently completed

- In May 2017, the Australian Government asked the ACCC to conduct an **Inquiry into the supply of home, contents and strata insurance in Northern Australia**. On 28 December 2020, the ACCC published the Northern Australia Insurance Inquiry Final Report as required under the Competition and Consumer Act 2010. The Final Report follows two previous reports. The ACCC has made 38 recommendations for reform. The Australian Government will provide a response to the ACCC recommendations in the first quarter of 2021;
- On 28 July 2020, the **Australian Small Business and Family Enterprise** Ombudsman announced an **inquiry into the practices of the insurance industry impacting small business** and whether insurance products are fit for the purposes of small business. A Final Report was released on 9 December 2020 and found widespread market failure regarding the availability and affordability of essential small business insurance products. The Australian Government will provide a response to the recommendations in the first quarter of 2021;
- On 18 December 2020, the **Australian Law Reform Commission** set out its approach to be taken for the **Review of the legislative framework for corporations and financial services regulation**. The Commission will produce consultation documents to ensure experts, stakeholders and the community can contribute to the Review. Interim Reports on the Review are to be delivered progressively from November 2021 with a consolidated Final Report delivered by 30 November 2023;
- In February 2020, the Australian Government established the **Royal Commission into National Natural Disaster Arrangements** after the extreme bushfire season. On 13 November 2020, the Government released its response to the Royal Commission into National Natural Disaster Arrangements. It supports or supports in principle all the Commission's recommendations. On 11 December 2020, the National Federation Reform Council, comprising the Prime Minister, Premiers, Chief Ministers, Treasurers and President of the Australian Local Government Association reaffirmed that all jurisdictions will collaborate to implement the recommendations of the Royal Commission into National Natural Disaster Arrangements, through the National Emergency Management Ministers' Meeting;
- The Finance and Public Administration References Committee invited IAG to give evidence at a public hearing in relation to the **Senate Standing Committee on Finance and Public Administration's Inquiry 'Lessons to be learned in relation to the Australian bushfire season 2019-2020'**. IAG appeared before the Committee on 10 July 2020. The Committee's Interim Report was released in October 2020. The Inquiry will be progressed further throughout 2021 and has called for additional submissions by 11 February 2021;
- In August 2019, the **House of Representatives' Standing Committee on Economics Inquiry** into the banks was extended to include the broader financial services industry. On 29 April 2020, IAG's CEO, appeared before the Committee. IAG continued to provide data to the Committee in 2020 in relation to new business policies, cancellations and lapses and claims. The Inquiry will continue in 2021;
- On 13 January 2021, the Treasury released for consultation information on **deferred sales model exemptions**. The Treasury invited stakeholders to provide evidence for any classes of add-on insurance products that represent a very high level of consumer value where it would not be appropriate that they be captured by the deferred sales model. Submissions for requested exemptions are due 15 February 2021. The Deferred Sales Model will be effective from 5 October 2021;
- On 18 December 2020, the Government released exposure draft legislation for the **mandatory motor vehicle service and repair**

information sharing scheme for consultation. The main regulatory impact will be on parties currently sharing service and repair information, such as motor vehicle manufacturers, as they will be required to expand their systems to provide information to a broader range of repairers;

- In October 2020, the Australian Government asked the Productivity Commission to conduct an **Inquiry into the Right to Repair**. Initial submissions were due by 1 February 2021. Opportunity for further comment will be sought upon release of the Draft Report in June 2021;
- In 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**. IAG appeared before the Committee in November 2019, and at additional hearings in July 2020. The Committee's Final Report was tabled in Parliament on 24 September 2020. The Government's response is expected in the first half of 2021;
- On 11 December 2020, ASIC released **a regulatory guide on product design and distribution obligations** following extensive consultation. The design and distribution obligations require firms to design financial products to meet the needs of consumers, and to distribute their products in a more targeted manner (effective 5 October 2021);
- On 17 November 2020, ASIC issued Consultation Paper **- Promoting access to affordable advice for consumers**. This consultation is part of a broader piece of work by ASIC to understand how to improve access to personal advice for consumers. Submissions were due by 18 January 2021. ASIC will hold industry Roundtables in the first quarter of 2021 to discuss the issues raised in the submissions;
- On 25 November 2020, APRA commenced a consultation to update the **insurance capital and reporting frameworks** in recognition of the implementation of Australian Accounting Standards Board 17 Insurance Contracts (AASB 17). The consultation will close on 31 March 2021, with APRA expected to release updated capital and reporting standards in late-2021 for further consultation. The final APRA capital and reporting standards will become effective from 1 July 2023;
- On 12 November 2020, APRA released for consultation a revised **remuneration prudential standard** (CPS 511 Remuneration). Submissions were requested by 12 February 2021. The new draft standard sets robust minimum standards for APRA-regulated entities and has moved to a more principles-based approach that is designed to be risk based and proportionate. Upon finalisation of the Financial Accountability Regime (FAR) legislation APRA will review whether any changes to CPS 511 are required;
- On 18 December 2020, the Treasury released a Consultation Paper which focuses on how to **modernise business communications by improving the technology neutrality** of Treasury portfolio laws, beyond the actions already being taken by the Government, to ensure they do not restrict the use of current and future technologies; and
- On 3 December 2020, ASIC released a Consultation Paper on proposed updates to ***Regulatory Guide 256: Client review and remediation conducted by advice licensees*** (submissions due 26 February 2021). ASIC will then release draft guidance for a second phase of consultation.

Insurers are implementing a **new General Insurance Code of Practice**. Members of the Insurance Council of Australia and other Code participants started to transition to the new Code from 1 January 2020. Insurers fast-tracked their support for customers who are experiencing vulnerability, including financial hardship and brought forward key consumer provisions parts nine (Supporting customers experiencing vulnerability) and ten (Financial hardship) of the new Code. Implementation of the remaining parts of the Code, with full compliance is required by 1 July 2021.

5. NEW ZEALAND

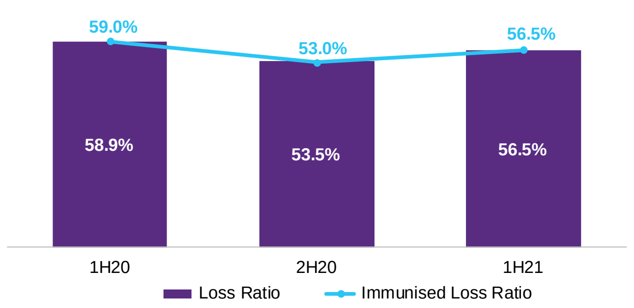
FINANCIAL PERFORMANCE

NEW ZEALAND	1H20 A$m	2H20 A$m	1H21 A$m
Gross written premium	**1,348**	**1,406**	**1,368**
Gross earned premium	1,357	1,376	1,362
Reinsurance expense	(533)	(565)	(566)
Net earned premium	**824**	**811**	**796**
Net claims expense	(485)	(434)	(450)
Commission expense	(90)	(92)	(94)
Underwriting expense	(99)	(124)	(98)
Underwriting profit	**150**	**161**	**154**
Investment income on technical reserves	6	13	8
Insurance profit	**156**	**174**	**162**

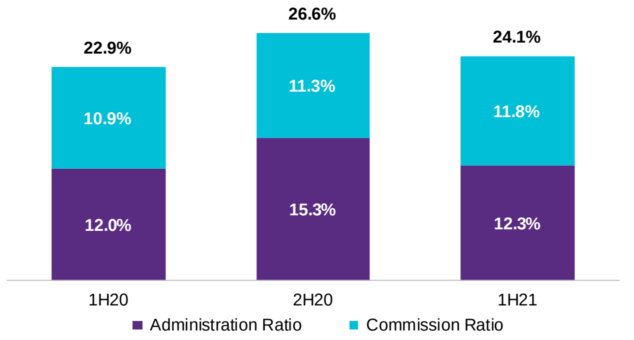
Insurance Ratios	1H20	2H20	1H21
Loss ratio	58.9%	53.5%	56.5%
Immunised loss ratio	59.0%	53.0%	56.5%
Expense ratio	22.9%	26.6%	24.1%
Commission ratio	10.9%	11.3%	11.8%
Administration ratio	12.0%	15.3%	12.3%
Combined ratio	81.8%	80.1%	80.6%
Immunised combined ratio	81.9%	79.6%	80.6%
Reported insurance margin	18.9%	21.5%	20.4%
Underlying insurance margin	18.9%	18.3%	18.6%

INSURANCE RATIOS

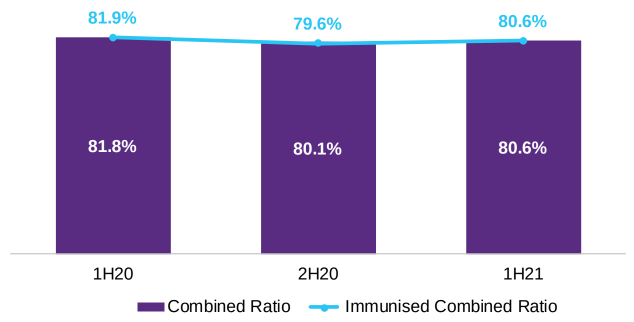
LOSS RATIO



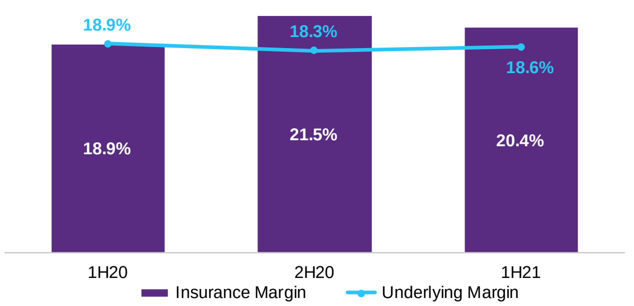
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



5. NEW ZEALAND

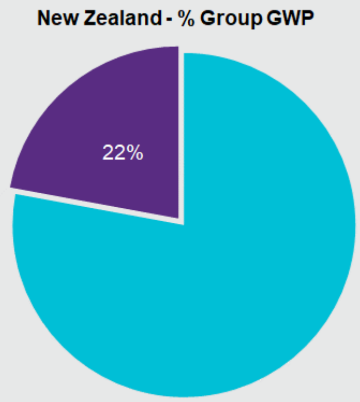
EXECUTIVE SUMMARY

New Zealand snapshot

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley brands
- IAG also underwrites general insurance products provided by some of New Zealand's leading financial institutions

1H21 Performance

- Local currency GWP growth of 2.8%
- Low-single digit rate increases across all key personal lines and high-single in intermediated commercial property
- Volume growth in private and commercial motor portfolios
- Strong underlying and reported margins maintained
- Ongoing disciplined cost management



PREMIUMS

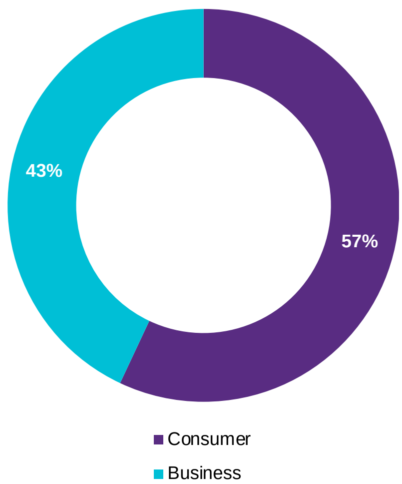
New Zealand's local currency GWP grew by 2.8% in 1H21, to NZ$1,468m (1H20: NZ$1,428m). Both Business and Consumer delivered growth, driven by a combination of premium rate growth, strong retention rates and sound new business levels.

There have been no material COVID-19 GWP impacts in 1H21. The economy has been more resilient than expected, supported by the government's economic response as well as the relatively short duration of lockdowns.

In reported terms, New Zealand recorded GWP growth of 1.5% to $1,368m, reflecting a modestly unfavourable foreign exchange translation effect.

Local currency GWP growth of 2.8%

NEW ZEALAND 1H21 GWP - DIVISION



Business

Business represented 43% of New Zealand's GWP in 1H21 (1H20: 43%), with local currency GWP growth of 3.1%. Rate increases of ~4% were achieved over 1H20.

- The performance was led by commercial property, which achieved high-single digit rate growth. The portfolio maintained strong retention rates, however COVID-19 has contributed to new business growth being down on prior year levels.
- Commercial motor's GWP was modestly lower, mainly through reduced rates. Compared to 2H20, COVID-19 had less of an impact on new business volumes which were ahead of prior year levels.
- Business' personal lines experienced a minor reduction in GWP compared with 1H20. Higher rates offset some volume loss as the division continues to exercise disciplined underwriting and appropriately price for risk.

Consumer

Consumer represented 57% of New Zealand's GWP in 1H21 (1H20: 57%) and achieved local currency GWP growth of 2.6%, underpinned by rate increases of around 2%.

- Growth was led by the AMI brand, primarily through rate and volume increases in home and private motor.
- Direct (State and AMI) new business levels were ahead of 1H20 across all personal line portfolios. Direct retention rates also remained strong with all personal line portfolios broadly holding to prior year levels.

5. NEW ZEALAND

- GWP for personal lines written through bank partners was in line with 1H20. Home retention rates improved compared to 1H20, although new business levels were down over the same period. Private motor saw an improvement in retention rates versus 1H20 while new business volumes held steady.
- Consumer's direct commercial lines portfolio achieved low-single digit growth in 1H21.

Customer Initiatives

The Customer Care Team established in March 2020 to support the Consumer Division's customers experiencing COVID-19 financial hardship has now been permanently established and extended to support all New Zealand customers experiencing vulnerability. Recognising every customer's situation is unique, the Customer Care Team remains focussed on tailoring solutions to meet a customer's needs.

Digital Initiatives

COVID-19 was a catalyst for a marked shift to digital channels as customers benefited from having more flexibility in how and when they interact. Progress on digital initiatives included:

- Closure of the majority of the AMI branch network in 1H21 with the remaining eight branches to close by 30 June 2021. Most impacted staff have been redeployed into contact centres where they will continue to support AMI customers;
- Digital education support from AMI via a recent partnership with SeniorNet.
  - SeniorNet is a community training network that supports and motivates New Zealanders aged 50 and over to use technology. AMI is covering membership fees for customers up to September 2021.
  - SeniorNet will run workshops and one-on-one sessions with AMI customers to guide them through using online insurance services, as well as provide general digital support;
- Rollout of State's digital experiences for personal insurance, Sam and Tally:
  - Sam is a 24/7 quote and buy experience for private motor, enabling State to cater to busy customers and improve their experience; and
  - Tally helps customers understand the need for contents insurance and makes the experience faster and more user-friendly; and
- Extension of our online personal lines claims functionality at AMI and State to Westpac customers.

Changing customer behaviours along with targeted digital propositions have resulted in a 50% increase in digital sales for State and AMI compared to 1H20.

COVID-19 has added momentum to a number of digital initiatives

REINSURANCE EXPENSE

New Zealand's reinsurance expense was $566m, compared to $533m in 1H20. The underlying reinsurance expense increased compared with the same period last year reflecting a combination of:

- Overall exposure growth;
- Changes to gross cover; and
- An increase in catastrophe reinsurance rates.

Higher reinsurance expenses reflect exposure growth

5. NEW ZEALAND

INSURANCE PROFIT

New Zealand produced an insurance profit of $162m in 1H21, compared to $156m in 1H20. This equated to a reported insurance margin of 20.4% (1H20: 18.9%). The increase reflected higher reserve releases and a reduced drag from natural perils.

Reserve releases drive the reported insurance margin above 20%

INSURANCE MARGIN IMPACTS New Zealand	1H20 A$m	2H20 A$m	1H21 A$m
Underlying insurance profit	**156**	**148**	**148**
Reserve releases/(strengthening)	14	4	18
Natural perils	(57)	(21)	(51)
Natural peril allowance	43	43	47
Reported insurance profit	**156**	**174**	**162**
Underlying insurance margin	**18.9%**	**18.3%**	**18.6%**
Reserve releases/(strengthening)	1.7%	0.5%	2.3%
Natural perils	(6.9%)	(2.6%)	(6.4%)
Natural peril allowance	5.2%	5.3%	5.9%
Reported insurance margin	**18.9%**	**21.5%**	**20.4%**

A slightly softer 1H21 underlying margin of 18.6% (1H20: 18.9%) largely reflected higher reinsurance costs. COVID-19 had a broadly neutral impact on the underlying margin.

Stable underlying insurance margins with minimal COVID-19 impacts in 1H21

Underlying Claims Experience

New Zealand's underlying loss ratio of 52.4% in 1H21 was an improvement against 53.8% in 1H20 however deteriorated relative to 50.9% in 2H20.

IMMUNISED LOSS RATIO New Zealand	1H20 A$m	2H20 A$m	1H21 A$m
Immunised underlying net claims expense	**443**	**413**	**417**
Discount rate adjustment	(1)	4	-
Reserving and perils effects	43	17	33
Reported net claims expense	**485**	**434**	**450**
Immunised underlying loss ratio	**53.8%**	**50.9%**	**52.4%**
Discount rate adjustment	(0.1%)	0.5%	-
Reserving and perils effects	5.2%	2.1%	4.1%
Reported loss ratio	**58.9%**	**53.5%**	**56.5%**

Compared to 2H20, the softer underlying loss ratio was influenced by three main factors:

- An increase in home claims frequency. The change in ways of working due to COVID-19 is contributing to an increase in reported homeowner claims as a higher number of people are spending more time at home leading to a greater likelihood of claims incidents. Emerging trends are being monitored and New Zealand is focused on plans to address this issue;
- A steady increase in motor claim frequency to pre COVID-19 levels as lockdowns ended; and
- Lower large claims experience (greater than NZ$100,000) compared to expectations and the same period last year. The decrease was driven by fewer large commercial claims.

5. NEW ZEALAND

Reserve Releases

Prior period reserve releases of $18m were recognised in 1H21, compared to releases of $14m in 1H20. The release in 1H21 was mainly attributable to favourable prior year working claims development across a number of classes of business.

Natural Perils

A number of large natural peril events was experienced in 1H21 with net natural peril costs exceeding the allowance by $4m. The largest event during the period was the Napier flood in November, with a net cost of $16m.

More peril activity than usual

A detailed list of significant natural peril costs for New Zealand is available in the Group Results section.

Canterbury earthquake settlements

Steady progress continues to be made with the settlement of claims associated with the FY11 Canterbury earthquake events. At 31 December 2020 over NZ$7.1bn of claim settlements had been completed, with less than 850 claims remaining open out of more than 90,000 received.

Outstanding Canterbury earthquake claims include those subject to dispute and litigation, as well as recently received over-cap claims from the EQC. It remains IAG's expectation that finalisation of all residual claims will take several years given their associated complexity.

IAG recently settled its claims against the EQC in relation to Land Recoveries and Financial Wash-up. This had no net P&L impact in the current period.

- Land Recoveries refer to claims against the EQC for the extra costs incurred by IAG in rebuilding and repairing homes as a result of damage caused to the land. The EQC is responsible for rectifying land damage.
- Financial Wash-up refers to claims against the EQC for the additional recovery of money where analysis has identified the EQC did not initially contribute enough funds to the rebuild or repair of homes.
- The Canterbury earthquakes comprised a number of separate natural disaster events, and EQC was liable to homeowners for up to a maximum of NZ$100,000 for each of these.

Expenses

New Zealand's expenses of $192m in 1H21 were largely in line with 1H20 ($189m) as disciplined cost management was maintained.

Cost discipline maintained

1H21 administration ratio of 12.3% was slightly higher than the same period last year (1H20: 12.0%) while the commission ratio of 11.8% has increased by close to 100bps.

MARKET REGULATION AND REFORM

On 10 January 2021, the **Reserve Bank of New Zealand (RBNZ)** announced that a **third-party file sharing service had been illegally accessed**. The system was secured and taken offline. The RBNZ is working closely with domestic and international cyber security experts and relevant authorities to investigate and respond. The nature and extent of information that has potentially been accessed is still being determined. IAG has engaged actively to understand the possible impact and remains in close contact. The RBNZ has undertaken to meet with each impacted party as soon as its investigations are complete.

RBNZ data breach still under investigation

Following the release of the **Public Inquiry into the Earthquake Commission** in April 2020, the Government announced in late August that it would be implementing all its recommendations through operational changes at the Commission and amendments to the **Earthquake Commission Act 1993**. The review and updating of the Act will also include a wider range of issues that have been under consideration since 2015.

The new **Financial Advice Regime** will commence on 15 March 2021. Requirements governing the provision of financial advice, including conduct, competence, client care and disclosure will apply from that date. Full licenses are required to be applied for and approved by March 2023.

On 15 September 2020 the Climate Change Minister announced that a **mandatory climate change disclosure regime** will be introduced for listed companies and regulated entities such as banks and general insurers. It will be on a comply-or-explain basis and will be based on the framework developed by the Task Force on Climate-related Financial Disclosures. The Financial Markets Authority (FMA) will be responsible for independent monitoring, reporting and enforcement. Intention is for legislation to be introduced in late 2020 or early 2021 and if approved by Parliament, financial entities could be required to make disclosures in 2023 at the earliest.

The Select Committee reported back on the **Financial Markets (Conduct of Institutions) Amendment Bill** in August 2020, making a number of changes, including to the treatment of intermediaries. This Bill proposes to establish a new conduct regime for financial institutions that includes:

- Conduct-licensing for banks, insurers and non-bank deposit takers;
- A requirement that institutions meet a fair treatment standard and implement effective policies, processes, systems and controls to meet that standard;
- A prohibition on sales incentives based on volume or value targets and the creation of obligations in relation to how remuneration and any other sales incentives are designed; and
- An extension to the mandate and enforcement powers of the FMA and stronger penalties for non-compliance.

RBNZ review of prudential supervision relaunched

Following a six-month delay due to COVID-19, the RBNZ's **review of the Insurance (Prudential Supervision) Act** was relaunched in September and initial consultation took place in October. This review aims to ensure that the Act continues to promote the maintenance of a sound and efficient insurance sector and public confidence in it. The review will give priority to:

- Who and what the Act applies to;
- The treatment of overseas insurers;
- Disclosure requirements;
- Executive accountability;
- Solvency; and
- Regulatory mechanisms.

There is also a parallel **Review of Solvency Standards** that will take place in two phases and address the introduction of the accounting standard IFRS 17 as well as the detail of capital charges and other components of the standard.

Having made policy decisions in late 2019, the next step in the review of insurance contract law is expected to be the release of a consultation draft of a new **Insurance Contracts Bill**, though the timing of this has been impacted by COVID-19. This Bill would seek to modernise and consolidate a range of existing insurance law into a single Act, including:

- Placing the responsibility on insurers to ask consumers the right questions when processing new insurance policies;

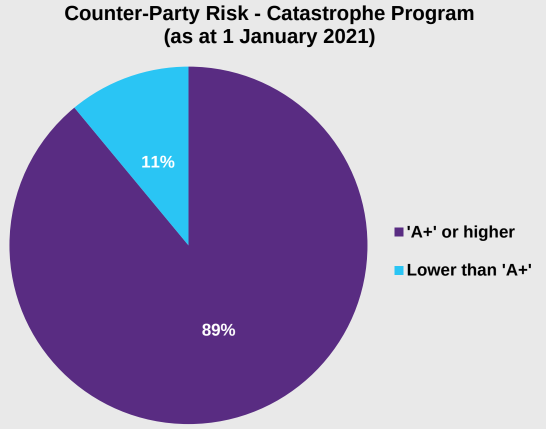
- Ensuring insurers respond proportionately when consumers misrepresent themselves;
- Requiring insurance policies to be written and presented clearly;
- Strengthening protections for consumers against unfair terms in insurance contracts; and
- Extending compliance monitoring and enforcement power to the FMA.

In early November 2020, the **RBNZ** provided an update on insurer dividend restrictions. In the update, the **RBNZ** stated it no longer considers it necessary for all insurers to withhold dividend payments in order to support financial stability and has withdrawn the requirement that was imposed in July 2020, however made it clear that insurers should continue to exercise prudence.

6. REINSURANCE

EXECUTIVE SUMMARY

- Calendar 2021 gross catastrophe cover up to $10bn unchanged from 2020
- Catastrophe cover placed to 67.5% to reflect quota share agreements
- Post-quota share group maximum event retention (MER) of $169m at 1 January 2021
- Earnings volatility covers have transitioned to financial year basis
- FY21 aggregate protection ($236m in excess of $270m, post-quota share)
- FY21 perils (stop-loss) cover of $68m in excess of $743m (post-quota share)



REINSURANCE STRATEGY

Reinsurance is an important part of IAG's 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 2021 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 aim to 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 Singapore captive continues to provide reinsurance protection to IAG's joint venture interest in Malaysia.

MARKET ENVIRONMENT

While the past 12 months have seen a marked reduction in the number of large global catastrophic events, there has been continued development of losses from prior years. Although the local market has experienced a number of natural peril events, the overall impact on property rates for Australian and New Zealand exposure has been modest, with capacity allocated on a program-by-program basis and influenced by loss experience and view of risk. Reinsurer appetite remains more difficult to secure on the lower layers of programs. Coupled with the extensive recoveries that have been made against earnings volatility covers globally, reinsurers have continued to quote increased premium rates, reduce capacity and seek higher attachment points on reinsurance protections.

Modest increase in reinsurance rates experienced at 2021 catastrophe renewal

WHOLE-OF-ACCOUNT QUOTA SHARE

IAG employs reinsurance capital via whole-of-account quota shares, with 32.5% of IAG's business subject to these arrangements which include:

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

32.5% of consolidated business remains subject to quota share

6. REINSURANCE

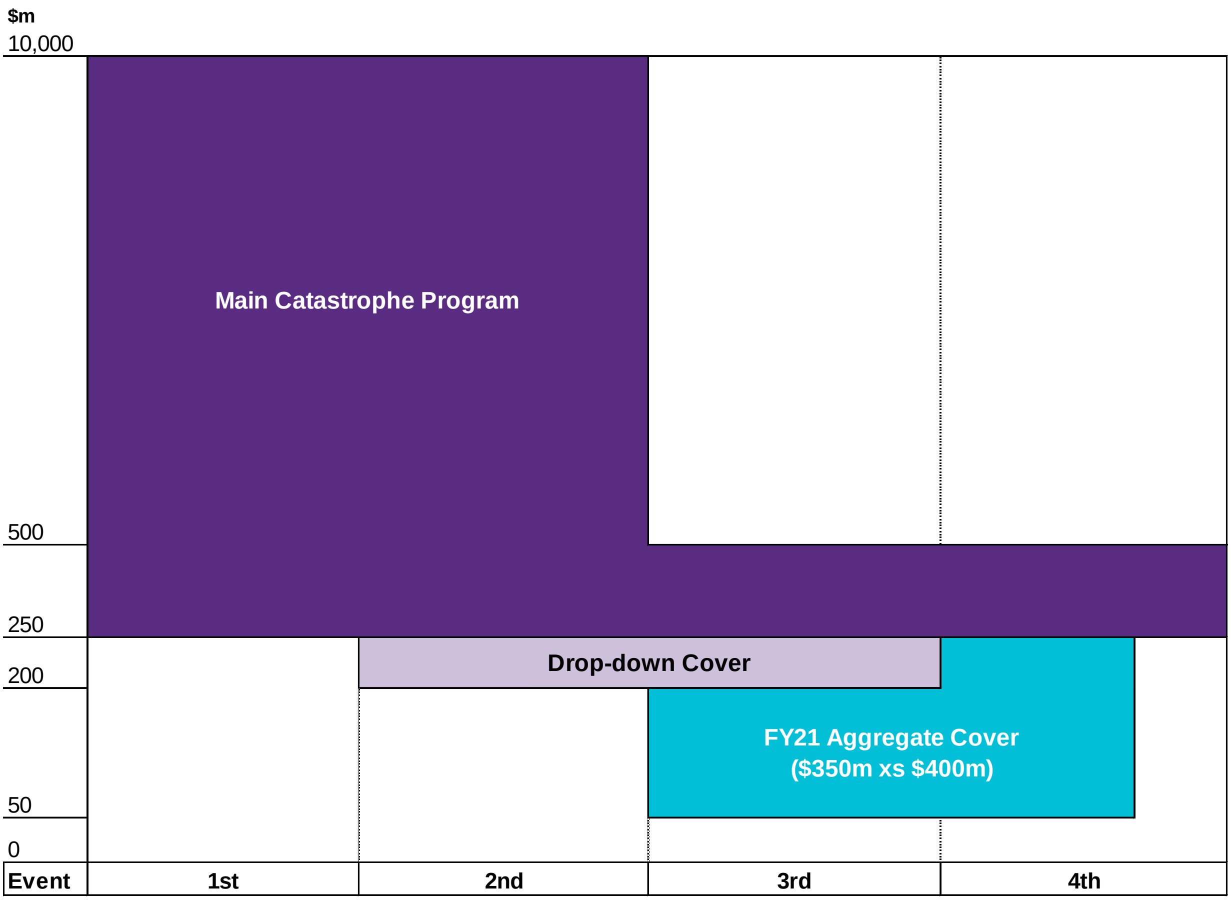
All the individual agreements deliver similar benefits and financial effects, on a pro-rata basis. These include:

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

CATASTROPHE COVER

IAG's catastrophe reinsurance protection runs to a calendar year, operates on an excess of loss basis and covers all territories in which IAG operates.

GROSS CATASTROPHE REINSURANCE – AS AT 1 JANUARY 2021



The main features at a gross (pre-quota share) level include:

- A main catastrophe cover for losses up to $10bn, including one prepaid reinstatement;
- IAG retaining the first $250m (2020: $250m) of each loss;
- Second and third event drop-down covers of $50m that were finalised in January 2021, reducing the cost of these events to $200m (2020: $50m for a second event); and
- Three prepaid reinstatements secured for the lower layer ($250m excess of $250m) of the main program (2020: three).

Around 90% of limits have been placed with 'A+' or higher rated entities for the calendar 2021 property catastrophe program.

Gross catastrophe cover of up to $10bn, placed to 67.5% to reflect quota shares

6. REINSURANCE

IAG transitioned its aggregate catastrophe cover from a calendar to financial year basis in 2020. The 2021 aggregate sideways cover for the 12-month period to 30 June 2021 provides $350m of protection in excess of $400m. With effect from 1 January 2021, qualifying events are capped at $200m excess of $50m per event.

After allowance for the cumulative quota share arrangements in place, the combination of all catastrophe covers resulted in IAG having maximum event retentions (MERs) at 1 January 2021 of $169m, $135m and $34m respectively for a first, second and subsequent event.

CALENDAR 2021 CATASTROPHE REINSURANCE PROGRAM		
Cover	**Gross**	**Net of quota share (67.5%)**
Main cover	$9.75bn xs $250m	$6.58bn xs $169m
Aggregate cover	$350m xs $400m	$236m xs $270m
Aggregate cover qualifying events	$200m xs $50m	$135m xs $34m
Retentions	**Gross**	**Net of quota share (67.5%)**
First event	$250m	$169m
Second event	$200m	$135m
Subsequent event	$50m	$34m

IAG also has stop-loss protection for retained natural perils which continues to align with the financial year. This provides protection of $100m in excess of $1.1bn ($68m in excess of $743m, post-quota share) for the 12 months to 30 June 2021. The attachment point compares to the FY21 natural perils allowance of $975m ($658m post-quota share).

CTP QUOTA SHARE

IAG has a quota share agreement with Munich Re in respect of 30% of its combined CTP book. Following completion of an initial four-year period from 1 July 2016, this was extended for a minimum period of 24 months to 30 June 2022. IAG has the option to reduce the 30% cession at 1 July 2021. 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 currently subject to quota share.

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 2020.

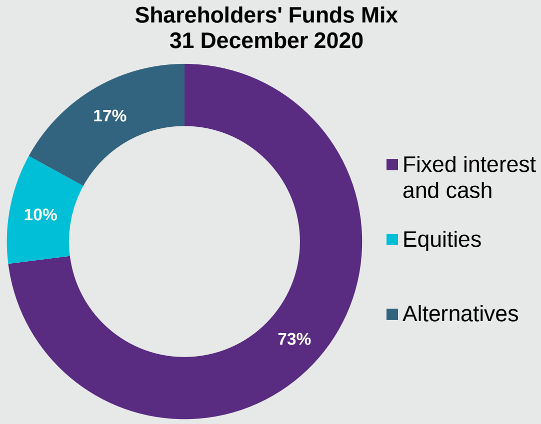
Where required by statute, unlimited cover is purchased where available and for other lines cover is placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

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 February 2011 earthquake and asbestos.

7. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $11.7bn as at 31 December 2020
- Investment allocation conservatively positioned
- Technical reserves of $7.1bn invested in fixed interest and cash
- Shareholders’ funds of $4.6bn – defensive asset weighting of ~73% maintained
- Investment return on technical reserves assisted by narrowing of credit spreads
- Improvement in shareholders’ funds income due to relative strength in investment markets



INVESTMENT PHILOSOPHY

IAG’s investment philosophy is to:

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

Technical reserves invested to align with liability interest rate risk

INVESTMENT STRATEGIES

IAG’s overall investment allocation is defensively positioned, with nearly 90% of total investments in fixed interest and cash as at 31 December 2020**.** IAG applies distinct investment strategies to its two pools of investment assets:

- Technical reserves, which back insurance liabilities, are wholly invested in fixed interest and cash; and
- A more diversified approach is taken to shareholders’ funds, comprising a mix of fixed interest and cash and growth assets (equities and alternatives).

IAG’s allocation to growth assets (equities and alternatives) was 27% of shareholders’ funds at 31 December 2020, a similar level to 30 June 2020.

Distinct investment strategies for technical reserves and shareholders’ funds

INVESTMENT ASSETS

Total investments of $11.7bn as at 31 December 2020 increased by $1.6bn compared to the position at 30 June 2020, reflecting the combined effect of:

- $450m in proceeds from the issue of subordinated convertible term notes on 24 August 2020;
- $776m in proceeds from the $650m institutional placement on 20 November 2020 and subsequent retail Share Purchase Plan;
- A $330m reduction following transfer of the management of the IAG and NRMA Superannuation Plan to a third party in November 2020; and
- Net earnings during the period.

Total investments increased by $1.6bn, largely reflecting capital raised

7. INVESTMENTS

INVESTMENT ASSETS	1H20 A$bn	FY20 A$bn	1H21 A$bn
Technical reserves	6.0	5.8	7.1
Shareholders' funds	4.0	4.3	4.6
Total investment assets	**10.0**	**10.1**	**11.7**

ASSET ALLOCATION

Since 30 June 2020, the growth asset mix has remained consistent in shareholders' funds. This reflects:

- The impact of higher domestic and offshore equity markets;
- Positive mark-to-market impacts in alternative asset classes;
- The transfer of the management of the IAG and NRMA Superannuation Plan to a third party; and
- Some active reallocation of funds to fixed interest and cash.

Nearly 90% of investments in fixed interest and cash

Due to economic uncertainty and market volatility in 1H21, IAG has maintained a growth asset weighting of 27% in its shareholders' funds.

IAG's investment processes for its equity portfolios exclude or restrict exposure to companies with poor climate change risk management and support investment in those companies that are reducing their carbon risk or investing in renewables.

In addition, IAG has established targets to reduce the Normalised Carbon Footprint and Carbon Intensity for its Australian and global listed equity mandates. Tracking of progress against these targets will be reported annually in IAG's climate-related disclosures, commencing at the end of FY21.

Carbon reduction targets established

IAG hedges foreign currency exposures within its investment portfolios.

ASSET ALLOCATION

SHAREHOLDERS' FUNDS	1H20 %	FY20 %	1H21 %	1H21 A$m
Australian equities	7.0	3.7	4.4	202
International equities	15.6	4.7	5.8	268
Alternatives	26.6	17.1	16.5	757
Fixed interest and cash	50.8	74.5	73.3	3,358
Total	**100.0**	**100.0**	**100.0**	**4,585**
TECHNICAL RESERVES	**%**	**%**	**%**	**A$m**
Fixed interest and cash	100.0	100.0	100.0	7,129
Total	**100.0**	**100.0**	**100.0**	**7,129**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	**%**	**%**	**%**	**A$m**
Australian equities	2.8	1.6	1.7	202
International equities	6.3	2.0	2.3	268
Alternatives	10.7	7.3	6.5	757
Fixed interest and cash	80.2	89.1	89.5	10,487
Total	**100.0**	**100.0**	**100.0**	**11,714**

Alternative investments totalled nearly $760m (FY20: ~$740m), or approximately 17% of shareholders' funds. The allocation to alternative investments currently includes higher yielding credit strategies, global convertible bonds, hedge funds and private equity.

7. INVESTMENTS

ALTERNATIVES	FY20 A$m	1H21 A$m
Global convertible bonds	148	171
Higher yielding credit	371	365
Hedge funds	141	139
Private equity	79	82
Total Alternatives	**739**	**757**

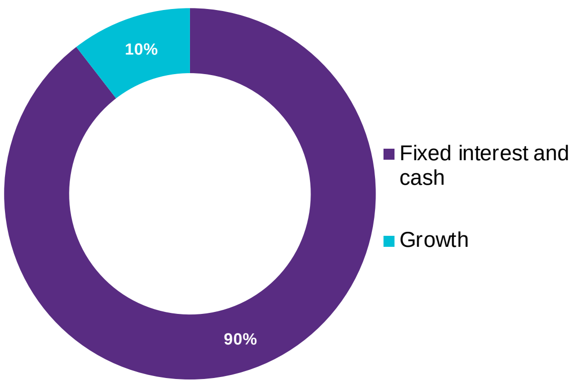
$82m in private equity also includes IAG's residual investment in Bohai in China ($28m) and the cumulative investments made in the Firemark Ventures fund ($39m).

CREDIT QUALITY OF ASSETS

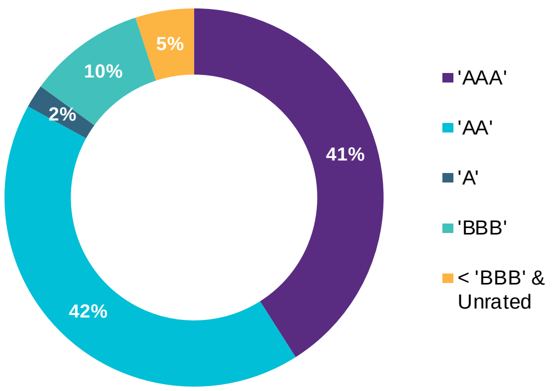
The credit quality of IAG's investment book remains strong, with 83% of the fixed interest and cash portfolio rated 'AA' or higher.

Strong credit quality maintained

ASSET ALLOCATION – 31 DECEMBER 2020



CREDIT QUALITY – 31 DECEMBER 2020



INVESTMENT PERFORMANCE

Investment Income on Technical Reserves

Investment income on technical reserves for 1H21 was $101m, compared to $81m in 1H20. Although the yield curve continued to move downwards over 1H21, higher investment income primarily reflects the contraction of credit spreads. Influences included:

- Higher average investment assets of approximately $6.5bn (1H20: ~$5.9bn); and
- A positive effect of $51m from the narrowing of credit spreads, compared to an equivalent profit of $7m in 1H20.

The average running yield achieved in 1H21 was lower than 2H20 reflecting the impact of lower interest rates. The portfolio remained aligned to the average weighted duration of IAG's claims liability, of around two years.

Lower average yield on technical reserves compared to FY20

Investment Income on Shareholders' Funds

Investment income on shareholders' funds was a profit of $138m, compared to a profit of $50m in 1H20 and a loss of $231m in 2H20, reflecting:

- Strong performance across alternative assets, primarily from higher yielding credit strategies, global convertible bonds and hedge funds;
- Positive equity returns in 1H21 reflecting strong market performances (S&P ASX200 Accumulation Index increased by 13.2% and the MSCI World Total Return Index (AUD Hedged) posted an increase of 18.8%)

Profit on shareholders' funds driven by market recovery

7. INVESTMENTS

partially diluted by the defensive strategy of IAG’s international equity portfolio;

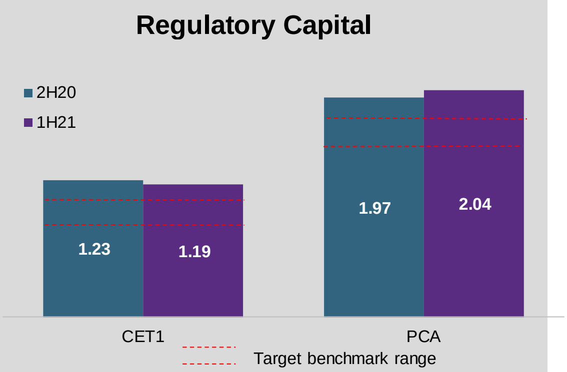
- The move to a more defensive asset allocation in 2H20; and
- A further $6m write-down of IAG's 16.9% interest in Bohai, reflecting the challenging operating environment for that business which is placing pressure on its financial performance.

SHAREHOLDERS' FUNDS INCOME	1H20 A$m	1H21 A$m
Equities	43	41
Alternatives	21	80
Fixed interest and cash	20	25
Total investment return	**84**	**146**
Foreign exchange and interest rate hedging costs	(18)	-
Fair value adjustments - Bohai / Firemark Ventures	(8)	(5)
Management fees	(8)	(3)
Total shareholders' funds income	**50**	**138**

8. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Balance sheet and capital strength maintained, supported by $776m capital raise
- CET1 multiple of 1.19 vs. benchmark of 0.9-1.1
- PCA multiple of 2.04 vs. benchmark of 1.6-1.8
- Debt and hybrids 36.1% of total tangible capitalisation – towards the mid-point of targeted range
- $450m of subordinated convertible term notes issued
- S&P ‘AA-’ rating of core operating subsidiaries



BALANCE SHEET

	1H20 A$m	FY20 A$m	1H21 A$m
Assets			
Cash and cash equivalents	324	405	418
Investments	9,947	10,100	11,714
Investments in joint ventures and associates	362	351	341
Trade and other receivables	4,029	4,419	4,223
Reinsurance and other recoveries on outstanding claims	6,014	6,069	6,868
Deferred insurance expenses	3,542	3,501	3,594
Goodwill and intangible assets	3,110	3,134	3,176
Assets held for sale	216	33	37
Other assets	1,509	1,682	1,989
Total assets	**29,053**	**29,694**	**32,360**
Liabilities			
Outstanding claims	10,476	10,584	12,579
Unearned premium	6,195	6,276	6,271
Interest bearing liabilities	1,532	1,526	1,976
Trade and other payables	2,610	2,800	2,842
Liabilities held for sale	17	14	20
Other liabilities	1,848	2,140	2,000
Total liabilities	**22,678**	**23,340**	**25,688**
Net assets	**6,375**	**6,354**	**6,672**
Equity			
Equity attributable to holders of ordinary shares	6,177	6,077	6,380
Non-controlling interests	198	277	292
Total equity	**6,375**	**6,354**	**6,672**

8. BALANCE SHEET & CAPITAL

Notable movements in balance sheet line items between 30 June 2020 and 31 December 2020 included:

- an increase in investments of $1.61bn associated with the funds inflow from the $776m equity raising, the issue of $450m of subordinated convertible term notes and operating activities for the half year, partially offset by a $330m outflow following the transfer of the management of the IAG and NRMA Superannuation Plan to a third party;
- an increase of $799m in reinsurance and other recoveries on outstanding claims primarily associated with quota share recoveries relating to potential business interruption related claims;
- an increase of $324m in deferred tax assets primarily due to the recognition of tax losses associated with the business interruption provision;
- a $2.0bn increase in the outstanding claims liability primarily driven by the business interruption provision;
- a $450m increase in interest-bearing liabilities owing to the issuance of subordinated convertible term notes; and
- a $303m increase in shareholders' equity (excluding non-controlling interests) from the equity capital raising and offset by the net loss attributable to shareholders of $460m.

Balance sheet movements include capital raising initiatives and the business interruption provision

CAPITAL

Capital Adequacy

IAG is strongly capitalised, with regulatory capital of $4.75bn at 31 December 2020 and a Common Equity Tier 1 (CET1) ratio of 1.19 times the Prescribed Capital Amount (PCA), compared to a targeted range of 0.9 to 1.1 times and a regulatory minimum requirement of 0.6 times.

The CET1 ratio is IAG's primary capital measure and continues to meet or exceed targeted levels. The CET1 ratio has reduced from the 1.23 multiple reported at 30 June 2020, owing to the net effect of:

- The net loss in 1H21;
- Capital impacts associated with the business interruption provision, including a benefit from excess technical provisions over liabilities, offset by higher non-deductible deferred tax assets and insurance risk charges;
- Equity capital issued in November and December 2020; and
- An increase in asset risk charges from fund flows associated with the debt and equity capital raisings over the period.

IAG remains strongly capitalised

8. BALANCE SHEET & CAPITAL

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H20 A$m	FY20 A$m	1H21 A$m
Common Equity Tier 1 Capital (CET1)			
Ordinary shares	6,617	6,617	7,385
Reserves	42	30	11
Retained earnings	(433)	(521)	(982)
Technical provisions in excess of liabilities	425	342	567
Minority interests	198	277	292
Less: Deductions	(4,135)	(4,178)	(4,506)
Total Common Equity Tier 1 Capital	**2,714**	**2,567**	**2,767**
Additional Tier 1 Capital			
Hybrid equities	404	404	404
Total Tier 1 Capital	**3,118**	**2,971**	**3,171**
Tier 2 Capital			
Subordinated term notes	1,136	1,127	1,577
Total Tier 2 Capital	**1,136**	**1,127**	**1,577**
Total Regulatory Capital	**4,254**	**4,098**	**4,748**
Prescribed Capital Amount (PCA)			
Insurance risk charge	968	1,001	1,089
Insurance concentration risk charge	169	169	169
Diversified asset risk charge	1,431	1,049	1,273
Aggregation benefit	(570)	(498)	(571)
Operational risk charge	360	361	371
Total Prescribed Capital Amount	**2,358**	**2,082**	**2,331**
PCA multiple	**1.80**	**1.97**	**2.04**
CET1 multiple	**1.15**	**1.23**	**1.19**

Deferred tax losses have increased by $352m, primarily as a consequence of the business interruption provision and partially offset by a $28m reduction from tax loss utilisation in New Zealand. Total deferred tax losses for the group stood at ~$600m at 31 December 2020.

Allowing for the interim dividend which will be paid in March 2021, the CET1 ratio at 31 December 2020 would reduce to 1.12.

IAG's PCA ratio at 31 December 2020 was 2.04 times, higher than six months earlier. This was influenced by the same factors driving the reduced CET1 ratio. In addition, it reflected the higher regulatory capital contribution from the issue of subordinated convertible term notes in August 2020.

Interest Bearing Liabilities

IAG's interest bearing liabilities stood at $1.98bn at 31 December 2020, compared to $1.53bn at 30 June 2020 following the issue of subordinated convertible term notes in August 2020.

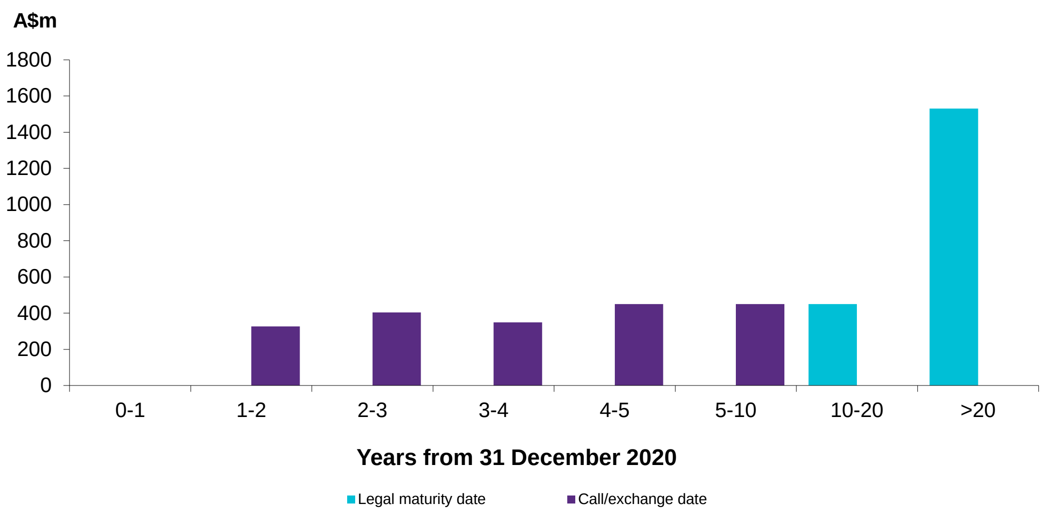
8. BALANCE SHEET & CAPITAL

INTEREST BEARING LIABILITIES	1H20 A$m	FY20 A$m	1H21 A$m
Subordinated debt	1,136	1,127	1,577
Capital Notes	404	404	404
Subtotal interest bearing liabilities	**1,540**	**1,531**	**1,981**
Capitalised transaction costs/other	(8)	(5)	(5)
Total interest bearing liabilities	**1,532**	**1,526**	**1,976**

GROUP DEBT & HYBRID CAPITAL	Principal amount A$m	A$m	Yield %	Rate	First Call or Exchange date	S&P rating
Subordinated fixed rate notes	NZ$350	327	5.15%	Fixed	Jun-22	'BBB'
Subordinated term notes (issue Mar-18)[1]	A$350	350	2.12%	Variable	Jun-24	'BBB'
Subordinated term notes (issue Mar-19)[2]	A$450	450	2.37%	Variable	Jun-25	'BBB'
Subordinated term notes (issue Aug-20)[3]	A$450	450	2.47%	Variable	Dec-26	'BBB'
Total Debt		**1,577**				
Capital Notes (IAGPD)[4]	A$404	404	4.72%	Variable	Jun-23	'N/R'

[1] *Stated yield based on margin of BBSW + 2.10%*
[2] *Stated yield based on margin of BBSW + 2.35%*
[3] *Stated yield based on margin of BBSW + 2.45%*
[4] *The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield.*

DEBT MATURITY PROFILE



Capital Mix

IAG measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. IAG targets the following ranges:

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

Capital mix within targeted ranges

8. BALANCE SHEET & CAPITAL

CAPITAL MIX	1H20 A$m	FY20 A$m	1H21 A$m
Shareholder equity	6,375	6,354	6,672
Intangibles and goodwill	(3,110)	(3,134)	(3,176)
Tangible shareholder equity	**3,265**	**3,220**	**3,496**
Interest bearing liabilities	1,532	1,526	1,976
Total tangible capitalisation	**4,797**	**4,746**	**5,472**
Debt to total tangible capitalisation	**31.9%**	**32.2%**	**36.1%**

At 31 December 2020, debt and hybrids represented 36.1% of total tangible capitalisation, towards the mid-point of IAG's targeted debt range, an increase since FY20 following the issue of subordinated convertible term notes in August 2020.

Capital Management

IAG's key capital measure is its CET1 ratio. It remains IAG's intention to manage its CET1 capital broadly in line with the relevant targeted benchmark range over the longer term.

Retained intent to manage capital to CET1 benchmark range over longer term

While IAG presently stands comfortably above its targeted CET1 range of 0.9-1.1, it regards the current economic circumstances and uncertainty as justifying a more conservative approach to capital than would otherwise be required.

Credit Ratings

Standard & Poor's (S&P) accords 'very strong' 'AA-' insurer financial strength and issuer credit ratings to IAG's core operating subsidiaries, as well as an 'A' issuer credit rating to the non-operating holding company, Insurance Australia Group Limited. The outlook on all entities is stable.

9. SAFER COMMUNITIES

IAG's **purpose** is to make your world a safer place and it is committed to being a responsible and ethical business that meets community and customer expectations.

IAG continued to deliver on its purpose throughout 1H21, guided by the **Safer Communities Plan**. The plan is informed by IAG's material issues and is focused on disaster resilience and climate change as the single area where IAG believes it is uniquely placed to make a meaningful impact.

Material issues identified

Each year, IAG engages its key stakeholders to help identify the material issues that affect its ability to make your world a safer place. Materiality is based on the importance of each issue to IAG's stakeholders and their impact on the environment, economy and society. The issues identified as material to IAG's business are:

Accessibility and affordability of insurance	Post disaster relief and emergency response	Climate change and its impacts	Community connection and resilience

Disaster resilience and climate change a priority

IAG's safer communities focus has been shaped from these material issues, IAG's strategy and external frameworks, such as the United Nations' Sustainable Development Goals. By prioritising work on disaster resilience and climate change, IAG believes it can harness its capabilities, expertise and commitment to purpose, to make a meaningful difference:

- **Disaster resilience and climate change** – enabling communities to better prepare for, and respond to, natural perils and climate change by using IAG's unique knowledge, capabilities and assets to reduce natural hazard risk, manage our own climate change risks to create competitive advantage, while supporting community-led resilience.

The ability to drive change and have positive impact in this area for both IAG and the community is facilitated by continuing to get the essentials right; maintaining social licence to operate and connecting IAG's people to purpose:

- **Responsible and ethical business** – ensuring IAG builds trust by being a responsible and ethical business that meets customer and community expectations through transparent sustainability disclosure and ESG risk management; and
- **Community connection** – building safer and more resilient communities by connecting the IAG community and people to partners and purpose so their personal and collective development is supported and employee advocacy is increased.

DISASTER RESILIENCE AND CLIMATE CHANGE

Driving change through collaboration and advocacy

Collaboration to tackle climate change

Tackling climate change is complex and IAG understands the importance of collaboration and the role the business can play in advocating for change.

IAG continued its involvement with the Australian Sustainable Finance Initiative (ASFI) by contributing to the development of a Roadmap, released in November 2020.

9. SAFER COMMUNITIES

- The Roadmap makes 37 commitments aimed at aligning Australia's financial system to *'support a thriving Australian society, a healthy environment and a strong and prosperous economy'*.
- The recommendations encompass social and environmental issues, including support for a transition to net-zero emissions by 2050.

IAG has continued to work closely with the New Zealand Sustainable Finance Forum supporting the development of their Roadmap for Action, which was also released in November 2020.

Sharing expertise and insights

IAG has invested in developing leading scientific expertise and insights through the Natural Perils team as well as external partnerships. Sharing this expertise is critical to inform and progress the conversation around climate change. One part of IAG's Climate Action Plan is a 'Think big' approach which focuses on leading on the right issues and building appropriate relationships to enable climate action.

Investing in leading scientific expertise

- In November 2020, IAG released the second edition of *Severe Weather in a Changing Climate*, in partnership with the US-based National Center for Atmospheric Research. It builds on the first report using the latest scientific findings to extend the predictions and assessments noting the increasing risk of multiple types of natural disaster impacting Australia.
- IAG also collaborated with the Geneva Association on a new Flood Risk Management in Australia report, which was part of the Building Flood Resilience in a Changing Climate series. The report noted the high levels of insurance penetration but also called for flood management funding to be reallocated from response and recovery to mitigation and resilience.

In addition, IAG has continued to strengthen its commitment to tackling its impact on climate change through:

IAG continues to strengthen commitments on climate change

- Remaining carbon neutral since 2012;
- Committing to cease underwriting entities predominantly involved in fossil fuel extraction and power generation by 2023; and
- A new commitment of net-zero investment portfolio emissions by 2050, in line with the Paris Agreement.

To provide continued transparency, these commitments are reported against annually in IAG's Climate-related Disclosures and in half-yearly updates to the Climate Action Plan Scorecard, both of which can be found at:

www.iag.com.au/safer-communities

RESPONSIBLE AND ETHICAL BUSINESS

IAG has strengthened its approach to the governance of environmental and social issues in 1H21, to ensure policies remain fit for purpose.

Governance of environmental and social issues strengthened

Code of Conduct and Ethics

The Code of Conduct and Ethics (the Code) is an important part of IAG. It outlines IAG's core values and behaviours and provides guidance to IAG's employees on how to recognise risks and opportunities, and proactively address and report inappropriate behaviour. The refreshed Code was approved by IAG's Board of Directors and launched in November 2020. All IAG employees will complete mandatory training on the Code.

Strengthening our social and environmental commitments

IAG also launched a refreshed Social and Environmental Framework (the Framework), which replaced the Social and Environmental Policy. The Framework outlines IAG's commitments to managing social and environmental risks and provides guidance to employees on behaviours to ensure IAG upholds its social and environmental commitments. In addition, the Framework helps IAG's stakeholders understand how the business is managing social and environmental risks and opportunities. The Framework aligns commitments across IAG's policies including the Supplier Code of Conduct and Group Procurement Policy.

Our approach to Responsible Investment

A new Responsible Investment Policy

During 1H21, IAG published its Responsible Investment Policy, which outlines IAG's commitments to manage ESG related risks and opportunities within its investment portfolios. IAG believes that successful investing requires consideration of sustainable business practices, as well as traditional financial risk and return assessments.

In addition, IAG is a signatory to, and committed to implementing, the Principles of Responsible Investment.

The refreshed Code of Conduct and Ethics, Social and Environmental Framework and Responsible Investment Policy can be found at:

www.iag.com.au/safer-communities

Continuing to support our customers

Access and affordability of insurance is one of IAG's material issues and supporting vulnerable customers can help to ensure people can access appropriate products. IAG continued to invest in the capabilities needed to support customers experiencing vulnerability, including intermediate vulnerability training for customer-facing employees and team leaders, and the creation of specialist roles with deeper expertise to better support our most vulnerable customers.

IAG COMMUNITY CONNECTION

Continuing to support First Nations communities

IAG has continued to support First Nations communities driven by its Indigenous Engagement Strategy, which includes commitments in its Elevate Reconciliation Action Plan. IAG supports Indigenous change-makers, influencers and entrepreneurs through the Kayku Kumpu Mentoring Program and Awards. A second year of grants was awarded to five Indigenous businesses and eight Indigenous businesses were chosen to participate in a six-month mentoring program.

EXTERNAL RECOGNITION FOR ESG IN 1H21

- Inclusion in the Australian Index of the Dow Jones Sustainability Indices;
- Receiving an A- rating in the Carbon Disclosure Project;
- Assessed as having "Leading" ESG disclosures by the Australian Council of Superannuation Investors; and
- Placing third on Good Company's 'Best Workplace to Give Back' list of top 40 workplaces for 2020.

10. GLOSSARY

Please note that information previously included in Appendices A to D (Brand Portfolio, Business Snapshot, Key Relationships, Geographical & Product Diversification) is available in IAG's Corporate Profile and can be located at the following link at IAG's corporate website:

https://www.iag.com.au/about-us/what-we-do

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

ACCC	Australian Competition and Consumer Commission
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
CAPITAL NOTES	Capital Notes were issued by IAG in December 2016 and are quoted as IAGPD on ASX.
CASH EARNINGS	IAG defines cash earnings as net profit/(loss) after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of IAG's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.
CASH ROE	IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles.
CLAIMS HANDLING EXPENSES	Those administration costs incurred in the investigation, assessment and settlement of a claim.
COMBINED RATIO	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
COMMON EQUITY TIER 1 CAPITAL (CET1)	The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.
CREDIT SPREAD	The credit spread is the difference between the average yield to maturity of a portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.

10. GLOSSARY

DEFERRED ACQUISITION COSTS (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DISCOUNT RATE	In accordance with Australian Accounting Standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.
DRP	Dividend Reinvestment Plan, where shareholders receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
EPS	Earnings per share.
EXCHANGE COMMISSION	A fee, comprising fixed and variable components, paid under a quota share agreement by a reinsurance company to a ceding insurer to cover administrative costs, acquisition expenses and access to the underwriting profits of the ceded business.
EXPENSE RATIO	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
FIRE SERVICE LEVIES	Fire service levies are taxes on insurers to assist government funding for fire and emergency services. 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.
FRANKING CREDITS	Also known as an imputation credit, a franking credit is a type of tax credit that allows Australian companies to pass on tax paid to shareholders. The benefit to a shareholder is that franking credits can be used to reduce Australian income tax paid on dividends received. IAG also receives franking credits from its Australian equity investment portfolio.
GROSS EARNED PREMIUM	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
GROSS WRITTEN PREMIUM (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
IFRS	International Financial Reporting Standards.

10. GLOSSARY

IMMUNISED RATIO	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
INSURANCE MARGIN	The ratio of insurance profit to net earned premium.
INSURANCE PROFIT	Underwriting result plus investment income on assets backing technical reserves.
LIABILITY ADEQUACY TEST (LAT)	Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the writedown of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability.
LONG TAIL	Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.
LOSS RATIO	The ratio of net claims expense to net earned premium.
MER	Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.
NATURAL PERILS	Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.
NATURAL PERILS ALLOWANCE	The natural perils expense forecast to be incurred within a specified period of time based upon previous experience and management judgement, which is reflected in the pricing of related insurance products for the same period.
NATURAL PERILS EXPENSE	Losses arising from natural perils after deducting any applicable reinsurance recoveries.
NET CLAIMS EXPENSE	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
NET EARNED PREMIUM (NEP)	Gross earned premium less reinsurance expense.
PCA	Prescribed Capital Amount, as defined by APRA under its LAGIC regime.
PROBABILITY OF ADEQUACY (POA)	The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency.

10. GLOSSARY

QUOTA SHARE	A form of reinsurance in which an insurer cedes an agreed percentage of every risk it insures that falls within a class or classes of business, subject to a reinsurance treaty.
RECOVERIES	The amount of claims recovered from reinsurers, third parties or salvage.
RESERVE MOVEMENTS	Prior year reserve movements refer to the change in the ultimate cost of claims incurred to the previous balance date. These changes arise when, on the basis of emerging experience, claim numbers or loss costs are considered to differ from the actuarial assumptions inherent in the prior estimate for outstanding claim liabilities.
RISK FREE RATE	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.
RISKS IN FORCE	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
ROE	Return on equity, being net profit/(loss) after tax divided by average equity attributable to owners of the company.
SHAREHOLDERS' FUNDS	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
SHORT TAIL	Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
SME	Small-to-medium-sized enterprise.
TECHNICAL RESERVES	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.
TEPLA	Transitional Excess Profits and Losses Adjustment (TEPLA) is the adjustment required to ensure profit recognition under the CTP scheme in NSW is in line with the legislated capped level. In accordance with accounting requirements, TEPLA is treated as part of levies (alongside fire service levies), within underwriting expenses.
TREASURY SHARES	Ordinary IAG shares held by the company. These are primarily for the purposes of meeting share-based remuneration plan obligations.
TSR	Total shareholder return.

10. GLOSSARY

UNDERLYING MARGIN	IAG defines underlying margin as the reported insurance margin adjusted for: • Net natural peril claim costs less related allowance; • Prior year reserve releases changes; and • Credit spread movements. The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.
UNDERWRITING	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
UNDERWRITING EXPENSES	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
UNDERWRITING PROFIT/(LOSS)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
UNEARNED PREMIUM	Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.

DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**): 2,465,100,206 on issue at 31 December 2020
- Capital Notes (**IAGPD**): 4,041,265 on issue at 31 December 2020

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ$350m outstanding at 31 December 2020

KEY DATES

Interim dividend – ordinary shares	
• Ex-dividend date	16 February 2021
• Record date	17 February 2021
• DRP record date	18 February 2021
• Payment date	30 March 2021
Payment date for IAGPD and IAGFB quarterly distributions	15 March 2021
Payment date for IAGPD and IAGFB quarterly distributions	15 June 2021
Closing date for receipt of nominations for IAG Board	5 August 2021
Announcement of full year results to 30 June 2021	11 August 2021
Final dividend – ordinary shares	
• Ex-dividend date	17 August 2021*
• Record date	18 August 2021*
• DRP record date	19 August 2021*
• Payment date	22 September 2021*
Payment date for IAGPD and IAGFB quarterly distributions	15 September 2021
Annual General Meeting	22 October 2021
Payment date for IAGPD and IAGFB quarterly distributions	15 December 2021

**These dates are indicative only and are subject to change. Any change will be advised through the Australian Securities Exchange (ASX).*

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