



IAG announces 1H19 results

6 February 2019

Financial indicators

	1H18	1H19	Change	
GWP (\$m)	5,649	5,881	+4.1%	▲
Insurance profit (\$m)	745	496	-33.4%	▼
Underlying insurance margin (%)	13.0	16.2	+320bps	▲
Reported insurance margin (%)	17.9	13.7	-420bps	▼
Shareholders' funds income (\$m)	129	(7)	nm	▼
Net profit after tax (\$m)	551	500	-9.3%	▼
Cash earnings (\$m)	630	319	-49.4%	▼
Dividend (cps)	14.0	12.0	-14.3%	▼
Cash ROE (%)	19.1	9.8	-930bps	▼
CET1 multiple	1.19	1.18	-1bp	▼

"IAG's underlying performance has continued to improve over the half and was broadly in line with expectations. Top line GWP growth was largely driven by premium increases and included a positive exchange rate effect in respect of New Zealand.

Our underlying margin increased 70bps to 16.2% (excluding a 250bps quota share uplift) reflecting emerging net cost benefits from our optimisation program, as well as ongoing premium increases across the book that are at least matching inflation on claim costs.

IAG's reported margin of 13.7% was lower than 1H18, mainly due to the net natural peril claim cost outcome of \$110 million above allowance after the December Sydney hailstorm. Lower prior period reserve releases and an adverse credit spread movement were also factors.

We continue to expect our net natural peril claim costs for the year to be in line with allowance, with our stop-loss cover providing \$101m of reinsurance protection above allowance in the second half.

We had a sound performance in Australia, where lower NSW CTP profitability in Consumer was more than offset by the improved performance of our home and motor short tail lines. In Business, our performance improved due to cumulative premium increases and remediation benefits, as well as more normal large losses.

New Zealand continued to perform well, with solid GWP growth supported by sustained margins.

In Asia, we completed the sale of our Thailand business and expect to complete the sale of our Vietnam and Indonesia businesses before 30 June 2019. We continue to assess options relating to our joint ventures in India and Malaysia.

IAG's optimisation program is progressing in line with our plan, with a net reduction in gross operating costs of around \$40m in the half.

During the half we have continued to bring to life our purpose — to make your world a safer place.

Our purpose increasingly guides our decision making and plays a pivotal role in ensuring we create a more sustainable business that better meets the needs of all our stakeholders.

We released our climate change action plan and scorecard, assigning direct accountability for climate action to our senior executives while reaffirming our support of the United Nations sustainable development goals.

We've invested in giving customers greater clarity and they can now track the status of motor repairs via our smash repair network through SMS updates. Customers have responded positively to having access to up-to-date information about the status of their repair and we've now increased the availability of this service from 13 repairers to nearly 600.

Insurance4That, an innovative product that allows customers to insure a single item without having to buy a traditional home contents policy, has tapped into an increasing customer need. We have responded to this by making it more widely available.

We became a founding member of the Gradient Institute, with CSIRO's Data61 and The University of Sydney to research the ethics of artificial intelligence (AI) and develop AI systems that provide better outcomes for individuals and society overall.

And our Firemark Ventures investment fund continued to invest in emerging and innovative businesses that have the potential to transform insurance or enrich customer experiences.

"I'm proud of the passion and dedication of our people over the past six months when we've seen fires, floods, cyclones and hailstorms that have tested us and our customers. I am always humbled by the way we respond to these events and by the way we live our purpose every step of the way."

Peter Harmer
IAG Managing Director and
Chief Executive Officer



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GWP growth

Largely rate-driven

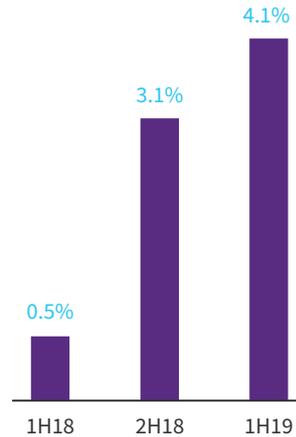
GWP growth of 4.1%

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

FY19 GWP growth guidance of 2-4% maintained

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

GWP growth (vs pcp)



Insurance margin

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

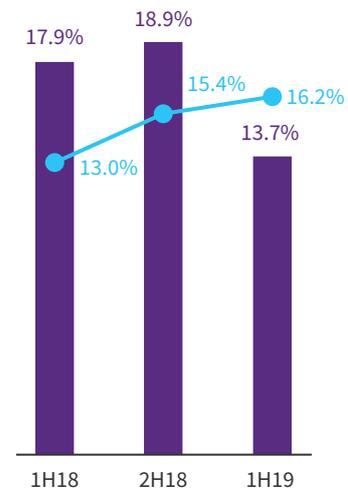
Higher underlying margin¹ of 16.2%

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

Lower reported margin of 13.7%

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

Margin trends 1H18-1H19



1. IAG defines its underlying insurance margin as the reported insurance margin adjusted for:

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

— Reported insurance margin
 — Underlying insurance margin



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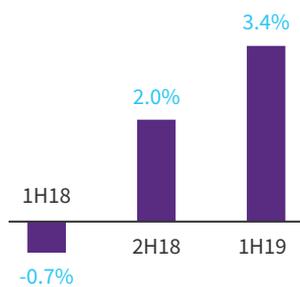
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Operational performance

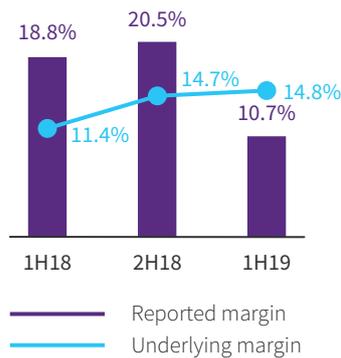
Australia

Sound Consumer returns, further Business improvement

Australia GWP growth (vs pcg)



Australia margins



GWP growth of 3.4%

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

Higher underlying margin of 14.8%

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

Sound performance expected in 2H19

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

New Zealand

Strong performance continues

NZ\$ GWP growth of 5.5% in 1H19

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

Higher 1H19 underlying margin of 20.0%

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

Strong performance expected in 2H19

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

New Zealand – GWP growth/underlying margin





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Strategy

“We believe our continued success relies on our ability to create fully connected customer experiences aligned to our purpose. These experiences will be personalised, easy to understand and simple to use; and they will be delivered instantaneously.

Our strategy is to optimise the core insurance business while creating future growth opportunities through three strategic priorities — customer, simplification and agility.

Our recent investments have focused on:

- Creating a customer-focused organisation and building capabilities in data, digital, analytics and AI, brand and innovation.
- Building a lean, efficient and modular insurance operation, through our simplification priority.
- Making considerable progress towards creating an agile organisation.

Over the course of 2019, we will extend our strategic partnerships to offer products and services adjacent to our insurance business, enabling IAG to make customers and the community feel safer on the road, in their homes and at work.

We will leverage our assets — including data, customer reach and brands – to launch and scale new digital businesses in markets that complement those adjacent products and services.

Our strategic goals are centred around building deeper engagement with our customers, and growing the number of customers in our network of brands. Overall, we seek to create more value for our customers by making their world a safer place and increasing the lifetime value of our customer relationships.”

Peter Harmer
IAG Managing Director and
Chief Executive Officer

Operational scorecard

Range of activities linked to three strategic priorities

1H19 activities

2H19 priorities



Customer

- Enhancement of customer digital experiences, including redesign of motor and home claim processes
- Launched trial loyalty program rewarding customers for being proactive about safety in the home and in the local community
- Developed real-time, interactive customer insights platform, providing IAG employees with a deeper customer understanding
- Placed the first tranche of material data workloads onto the cloud

- Make customer decisions more rapidly, efficiently and flexibly by continuing to move IAG's data to the cloud
- Give our customers access to smarter insights through question and answer chatbots and automated decisions embedded across the organisation
- Expand our digital capabilities and improve the performance and experience in our mobile channels by continuing to invest in leading edge technologies
- Build and test new and innovative products for customers



Simplification

- Continued claims component of systems consolidation across Australia and New Zealand
- Completed transition of targeted activities to operational partners

- Consolidation of core technology platforms and decommissioning of redundant systems
- Continue review and delivery of optimised repair model
- Commence detailed scoping of policy administration systems consolidation



Agility

- Continued embedment of Leading@IAG program linking purpose and strategy to individual accountability and performance
- Continued deployment of Future ME program, empowering employees to build their knowledge and preparedness to participate in the workforce of the future
- Further investments through Firemark Labs and partnerships to launch products and solutions that deliver on IAG's purpose

- Further strengthen ways of working, leadership and people frameworks to create clarity, improve productivity and evolve skills that underpin future success
- Continue to develop partnerships, products and shared value programs that drive safer communities and deliver on IAG's purpose: **We make your world a safer place**



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Return to shareholders

Dividend and capital position

The Board has determined to pay an interim fully franked dividend of 12.0 cents per share (cps) (1H18: 14.0 cps) on 20 March 2019. This represents a cash payout ratio of nearly 87%. It remains IAG's policy to pay out 60-80% of cash earnings on a full year basis.

In 1H19, IAG also paid a special dividend of 5.5 cps and a capital return of 19.5 cps in a \$592m capital management initiative approved by shareholders at the 2018 AGM and settled on 26 November 2018.

IAG's capital position remains strong. The Common Equity Tier 1 (CET1) ratio has reduced from the 30 June 2018 multiple of 1.26 to 1.18. After allowing for the interim dividend, the CET1 multiple would be at the upper end of IAG's benchmark range of 0.9 – 1.1.

Future franking capacity

IAG's franking credit balance has reduced in recent years, owing to past capital management measures and the move to a higher dividend payout policy.

As originally indicated in August 2018, it is IAG's expectation that it may not be in a position to fully frank distributions on its securities from the second half of calendar 2019 onwards, with franking from that date expected to be in the range of 70% to 100%.

Dividend history – FY14-1H19



FY19 outlook

Guidance measures reaffirmed

FY19 guidance



GWP growth
2-4%



Reported insurance margin
Range of 16-18%

Underlying assumptions

- 1** Net losses from natural perils of \$608m, in line with allowance
- 2** Reserve releases of around 2% of NEP
- 3** No material movement in foreign exchange rates or investment markets in 2H19

GWP growth guidance of 2-4%

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

Reported insurance margin guidance of 16-18%

- Improved underlying performance, including pre-tax benefit of ~\$100m from optimisation program activities
- Maintained net natural perils prediction — allows for presence of \$101m of stop-loss reinsurance protection immediately above \$608m allowance
- Reserve release expectation of 'around 2%' assumes continuation of benign inflationary environment



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IAG financial performance

Group results	1H18 A\$m	2H18 A\$m	1H19 A\$m	1H19 vs 1H18 Mvt
Gross written premium	5,649	5,998	5,881	+4.1%
Gross earned premium	5,780	5,742	5,984	
Reinsurance expense	(1,613)	(2,238)	(2,373)	
Net earned premium	4,167	3,504	3,611	
Net claims expense	(2,505)	(2,112)	(2,358)	
Commission expense	(387)	(320)	(324)	
Underwriting expense	(653)	(517)	(535)	
Underwriting profit	622	555	394	
Investment income on technical reserves	123	107	102	
Insurance profit	745	662	496	-33.4%
Net corporate expense	–	(9)	5	
Interest	(39)	(43)	(48)	
Profit/(loss) from fee-based business	–	(12)	5	
Share of profit from associates	19	15	19	
Investment income on shareholders' funds	129	36	(7)	
Profit before income tax and amortisation	854	649	470	-45.0%
Income tax expense	(211)	(173)	(123)	
Profit after income tax (before amortisation)	643	476	347	
Non-controlling interests	(19)	(60)	(25)	
Profit after income tax and non-controlling interests (before amortisation)	624	416	322	
Amortisation and impairment	(65)	(28)	(29)	
Profit attributable to IAG shareholders from continuing operations	559	388	293	-47.6%
Net profit/(loss) after tax from discontinued operations	(8)	(16)	207	
Profit/(loss) attributable to IAG shareholders	551	372	500	-9.3%
	1H18 A\$m	%	1H19 A\$m	%
Insurance margin				
Reported insurance margin	745	17.9%	496	13.7%
Net natural peril claim costs less allowance	(77)	(1.8%)	110	3.1%
Reserve releases in excess of 1% of NEP	(80)	(2.0%)	(47)	(1.3%)
Credit spread movements	(47)	(1.1%)	24	0.7%
Underlying insurance margin	541	13.0%	583	16.2%

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