Investor report 1H20

12 February 2020

This release has been authorised by the IAG Board

Insurance Australia Group Limited ABN 60 090 739 923

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

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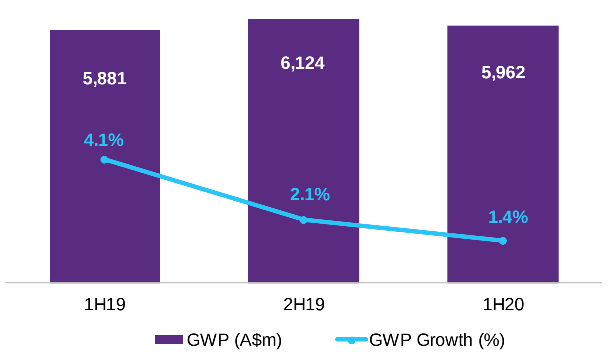
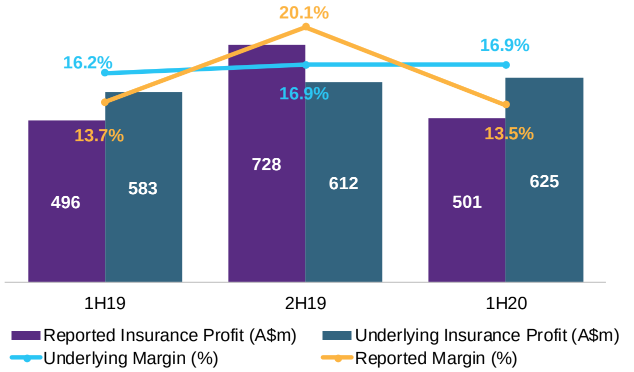
1H20 RESULTS

KEY RESULTS	1H19 A$m	2H19 A$m	1H20 A$m	1H20 vs 1H19 Mvt
Gross written premium (GWP)	**5,881**	**6,124**	**5,962**	**+1.4%**
Net earned premium (NEP)	3,611	3,627	3,709	+2.7%
Insurance profit*	**496**	**728**	**501**	**+1.0%**
Net profit after tax (NPAT)	500	576	283	-43.4%
Cash earnings	**319**	**612**	**380**	**+19.1%**
Reported insurance margin	13.7%	20.1%	13.5%	-20bps
Underlying insurance margin	**16.2%**	**16.9%**	**16.9%**	**+70bps**
Diluted EPS (cents)	20.48	24.16	12.16	-40.6%
Diluted cash EPS (cents)	**13.40**	**25.63**	**15.98**	**+19.3%**
Cash return on equity (ROE)	9.8%	19.6%	12.1%	+230bps
Dividend (cents per share)	**12.0**	**20.0**	**10.0**	-16.7%
Common Equity Tier 1 Capital (CET1) multiple	1.18	1.31	1.15	-3bps

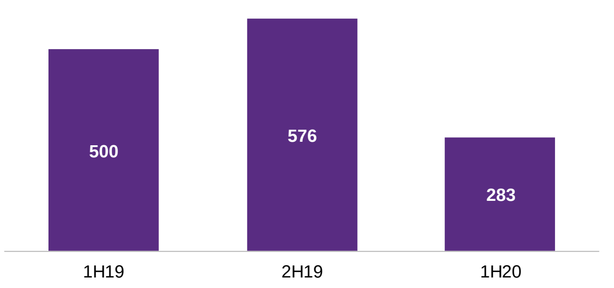
GWP GROWTH



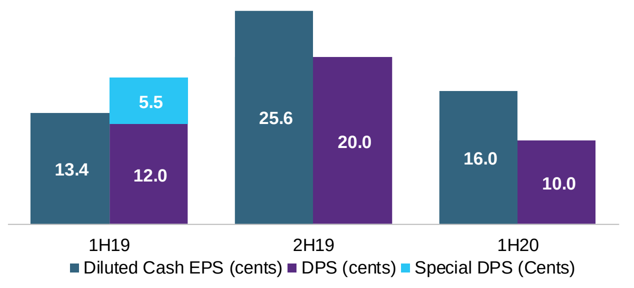
INSURANCE PROFIT & MARGIN



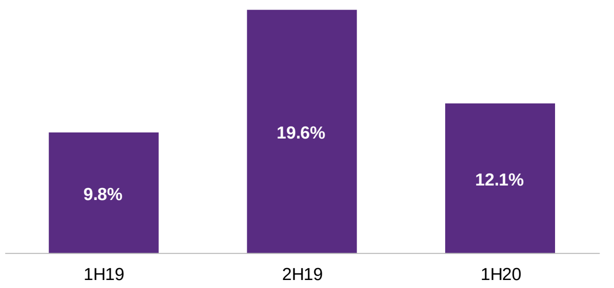
NET PROFIT AFTER TAX (A$M)



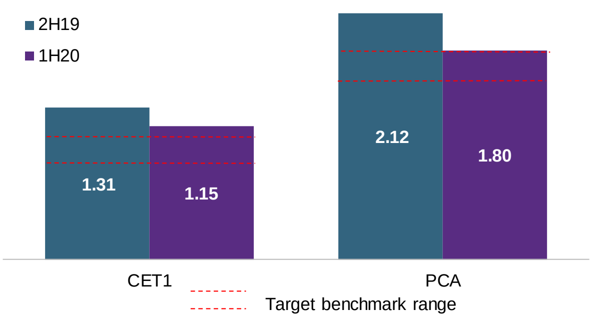
DILUTED CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



**The 1H20 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 1H20 Financial Report (Appendix 4D). A reconciliation between the two is provided on page 10 of this document and on page 2 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's 1H20 net profit after tax is the same in this document and in the Financial Report.*

1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS (VS. 1H19)

- Strong underlying performance, consistent with expectations held at outset of year
- Gross written premium (GWP) growth of 1.4% (like-for-like ~2.5%), consistent with full year guidance
- Largely rate-driven growth, pricing to meet claims inflation pressures
- Higher underlying margin of 16.9% (vs. 16.2% in 1H19)
- Includes headwind from lower interest rates on investment income – ~70bps drag on insurance margin
- Optimisation benefits realised as planned, partial offset from higher regulatory costs
- Lower reported margin of 13.5% – high net peril costs and lower than expected reserve releases
- $82m post-tax provision for customer pricing issue – excluded from cash earnings
- Interim dividend of 10 cents per share (70% franked) – nearly 61% of 1H20 cash earnings
- Strong capital position maintained – CET1 ratio at upper end of benchmark range, post-dividend
- India divestment expected to complete 2H20
- FY20 'low single digit' GWP growth guidance maintained
- Since 31 December 2019, FY20 reported margin guidance range lowered by 350bps to 12.5-14.5% to reflect cumulative peril and reserve release effects

1H20 OVERVIEW

1H20 underlying performance in line with expectations

IAG's underlying operating performance in 1H20 was strong and broadly in line with expectations, delivering an outcome consistent with 2H19. Simplification benefits accrued in line with plan.

At a divisional level, in 1H20:

- Australia continued to generate solid underlying profitability, while meeting the challenge of a succession of severe bushfire events; and
- New Zealand maintained its record of delivering a strong underlying margin, while producing solid GWP growth.

Overall GWP growth of 1.4% was impacted by business exits completed in FY19. Like-for-like GWP growth was ~2.5% and largely rate-driven.

An underlying margin of 16.9% (1H19: 16.2%) was broadly as anticipated, and included the following influences:

- Further realisation of optimisation program benefits;
- Some offset from increased regulatory and compliance costs; and
- A drag from lower interest rate effects on investment income.

A lower reported margin contained a repeat of the heavy peril activity which impacted 1H19, although the form of events differed, and a lower than anticipated prior period reserve release contribution.

Net profit after tax of $283m was considerably lower than 1H19, owing to the absence of the profit on sale of the Thailand operations and a post-tax provision of $82m to address a specific customer pricing issue.

In October 2019, IAG announced an agreed sale of its interest in SBI General Insurance Company (SBI General) in India and indicated a profit after tax of at least $300m and a regulatory capital benefit of over $400m. It is IAG's expectation that this divestment will complete in 2H20.

IAG's capital position remains strong. IAG is committed to operating within its targeted Common Equity Tier 1 (CET1) range of 0.9-1.1 times its Prescribed Capital Amount (PCA). Post-dividend, this was 1.06 at 31 December 2019.

1. EXECUTIVE SUMMARY

GROSS WRITTEN PREMIUM (GWP)

A 1.4% increase in 1H20 GWP, to $5,962m, was in line with expectations and consistent with FY20 guidance of low single digit growth. This comprised:

- Flat GWP of $4,608m in Australia; and
- Growth of 6.3% in New Zealand (to $1,348m), including a favourable foreign exchange translation effect. Local currency growth was 4.2%.

Like-for-like GWP growth was ~2.5% after allowing for Australian business exits concluded in FY19, lower CTP rates stemming from scheme change and foreign exchange translation effects.

Personal lines growth was primarily rate-driven, while commercial rate increases were a feature in both Australia and New Zealand. Further volume loss in Australian commercial lines contrasted with volume gain in New Zealand.

Like-for-like GWP growth of ~2.5%

INSURANCE MARGIN

IAG's underlying insurance margin increased to 16.9%, compared to 16.2% in 1H19. The improvement reflected rate-driven growth in net earned premium (NEP) and further net benefits from the group-wide optimisation program, partially offset by higher regulatory and compliance costs and lower interest rates impacting investment income.

Short tail personal lines' underlying profitability remained strong, as earned rate increases broadly matched average claim cost rises and further expense reduction benefits were realised.

Long tail CTP underlying profitability was similar to 1H19, with both periods reflecting the capped profitability of the new scheme in NSW.

Commercial lines' underlying profitability continued to improve. This reflected further benefits from rate and remediation activity, as well as cost-out effects, while absorbing pressure in Australian agricultural portfolios.

Higher underlying margin, vs. 1H19

IAG's reported margin of 13.5% was slightly lower than 1H19 (13.7%). In addition to the improvement in underlying profitability, this contained:

- A similar-sized net natural perils claim cost overrun against allowance, in a period of high perils activity centred on a sequence of bushfire events in Australia;
- A significantly lower net prior period reserve release outcome, below expectations, owing to stronger development and large loss experience in Australian long tail classes than anticipated; and
- A favourable movement in credit spread impact.

Similar reported insurance margin, despite lower reserve releases

DIVISIONAL HIGHLIGHTS

	1H19				1H20			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
DIVISION	A$m	%	%	%	A$m	%	%	%
Australia	4,606	3.4	10.7	14.8	4,608	-	12.1	16.1
New Zealand	1,268	6.6	24.9	20.0	1,348	6.3	18.9	18.9
Corporate & Other	7	nm	nm	nm	6	nm	nm	nm
Total Group	**5,881**	**4.1**	**13.7**	**16.2**	**5,962**	**1.4**	**13.5**	**16.9**

1. EXECUTIVE SUMMARY

Australia (77% of GWP) registered an improved underlying performance vs. 1H19. Flat GWP reflected business exit and lower CTP pricing effects, with like-for-like GWP growth of around 2% as rate-driven rises in short tail personal and commercial lines were offset by further volume loss in commercial classes. A higher underlying margin of 16.1% encompassed net cost-out benefits and favourable cumulative pricing impacts, particularly in commercial lines, while absorbing pressures on agricultural and intermediated personal line profitability. CTP profitability was similar to the prior period, with the main NSW scheme operating under a capped regime. A reported margin of 12.1% exceeded 1H19, despite a significantly adverse movement in prior period reserve effect.

Improved underlying profitability in Australia, while New Zealand maintained strong performance

New Zealand (23% of GWP) maintained its strong performance. Local currency GWP growth of 4.2% expanded to 6.3% on favourable foreign exchange translation. Rate-driven growth was supplemented by volume advances in personal and commercial motor as well as liability portfolios. New Zealand's underlying margin remained strong while retreating slightly (vs. 1H19) in the face of more normal attritional loss levels. Reported margin declined to a still-strong 18.9% as perils exceeded allowance, in contrast to the unusually benign comparable half.

NET PROFIT AFTER TAX / ROE

Lower net profit owing to absence of gain on sale of Thailand operations

Net profit after tax of $283m was 43% lower than 1H19 ($500m), from the combination of:

- A relatively flat pre-tax insurance profit of $501m, as improved underlying profitability was negated by a significant drop in contribution from prior period reserve releases;
- A positive turnaround in contribution from investment income on shareholders' funds, on stronger Australian and offshore equity markets;
- A substantial reduction in input from discontinued operations, owing to the absence of the profit of over $200m on the sale of the Thailand operations which was recognised in 1H19; and
- Inclusion of a post-tax provision of $82m for customer refunds relating to a multi-year pricing issue, as advised on 24 January 2020.

Cash earnings of $380m and diluted cash EPS of 15.98 cents were over 19% higher than 1H19.

Reported return on equity (ROE) in 1H20 was 9.0%, while cash ROE was 12.1%. This compares to IAG's through-the-cycle target of at least 1.5 times weighted average cost of capital (WACC), which equates to a cash ROE of approximately 15% on a longer term perspective.

PROVISION FOR CUSTOMER REFUNDS

On 24 January 2020 IAG advised that its 1H20 results would contain a post-tax provision of approximately $80m for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This relates to a specific multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible.

A net provision of $82m has been recognised in 1H20 and is excluded from cash earnings for dividend calculation purposes. A related pre-tax and pre-non-controlling interest amount of $150m is included in 'net corporate expense'.

1. EXECUTIVE SUMMARY

ASIA

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 and expedite divestments when appropriate.

Agreed sale of India, Indonesian sale completed

In October 2019 IAG announced the agreed sale of its 26% stake in SBI General in India, which is expected to complete in 2H20, and at the end of September 2019 completed the sale of its Indonesian interests.

IAG's other remaining Asian interests are:

- A 49% interest in AmGeneral Holdings Berhad (AmGeneral) in Malaysia, which continues to perform well. The total carrying value of IAG's economic interest in AmGeneral is $451m at 31 December 2019;
- A 73.07% interest in AAA Assurance Corporation in Vietnam, which has a carrying value of $18m at 31 December 2019. The agreed sale of this business, as originally announced on 19 June 2018, failed to receive the necessary regulatory approvals and is not proceeding. IAG is assessing alternative exit options; and
- A 16.9% interest in Bohai Property Insurance Company Ltd (Bohai) in China which has been included in the shareholders' funds investment portfolio since 1H16. This investment was written down by $8m in 1H20 and has a carrying value of $36m at 31 December 2019. IAG continues to pursue divestment options.

DIVIDEND

The Board has determined to pay an interim dividend of 10.0 cents per ordinary share, franked to 70% (1H19: 12.0cps, 100% franked). This equates to a cash payout ratio of nearly 61%. IAG's dividend policy remains one of distributing 60-80% of cash earnings, on a full year basis.

Interim dividend of 10 cents – ~61% of cash earnings

CAPITAL

IAG's capital position remains strong. At 31 December 2019 IAG's CET1 ratio was 1.15, and 1.06 after allowance for payment of the interim dividend, against a target benchmark of 0.9-1.1.

Strong capital position maintained

It is anticipated the sale of the 26% interest in SBI General in India will enhance IAG's capital position by at least 16bps in 2H20, once completed.

IAG's debt to total tangible capitalisation ratio at 31 December 2019 was 31.9%, towards the lower end of its targeted 30-40% range. This follows the redemption of the $550m Reset Exchangeable Securities instrument in December 2019, as previously foreshadowed.

Subject to market conditions, IAG may issue a new Tier 2 instrument in 2H20 to provide additional liquidity.

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 2019.

1. EXECUTIVE SUMMARY

FY20 OUTLOOK

Since the start of FY20, IAG has seen multiple extreme weather events which have impacted its customers and their communities. Responding to the needs of customers is particularly critical during such natural disasters, and IAG has increased the resource in its call centres and claim and repair management teams, to help its customers lodge claims and get back on their feet as quickly as possible.

These catastrophic weather events have also impacted IAG's financial performance, contributing to a lowering of its FY20 reported insurance margin guidance range by 350bps, to 12.5-14.5%.

FY20 reported insurance margin guidance range lowered to 12.5-14.5% owing to short term peril and reserve release effects

This has occurred in two steps since 31 December 2019:

- A 150bps reduction, as advised on 24 January 2020, to reflect:
  - An increase in net natural peril claim cost assumption to $715m (from $641m), allowing for high year-to-date peril incidence, including the major hailstorm event in January 2020; and
  - A lowering of full year prior period reserve release expectations, from 1.0% of NEP to 0.5%, following lower than anticipated releases in 1H20; and
- A 200bps reduction notified on 12 February 2020, derived from a further increase in net natural peril claim cost assumption to $850m (from $715m) to include the heavy rain event affecting south-eastern Australia in early February. This event is expected to result in a net claim cost of $135m, in line with the second event maximum event retention (MER).

The revised FY20 perils assumption of $850m allows for:

- Net natural peril claims of approximately $645m up until the end of January 2020;
- A net claim cost of $135m applicable to the February 2020 heavy rain event in Australia;
- An estimate for the five months to 30 June 2020 (excluding the heavy rain event), based on average sub-$100m (pre-quota share) event experience over the past five years, amounting to just over $170m;
- The FY20 stop-loss catastrophe reinsurance cover which provides $101m of protection above $675m, post-quota share; and
- No further major peril events ($100m or greater in size, pre-quota share) before 30 June 2020.

As at 12 February, IAG's MER had reduced to approximately $50m, following erosion of the deductible on the 2020 aggregate catastrophe cover.

All other FY20 reported insurance margin-related assumptions are unchanged, and comprise:

- Incremental improvement from optimisation program initiatives (of ~$160m pre-tax vs. FY19), cumulatively approximating the $250m pre-tax target originally set;
- An offset from higher regulatory and compliance costs, which are expected to increase by up to a further $50m (vs. FY19), including increased investment in risk-related resources;
- Ongoing drag from a lower investment running yield; and
- No material movement in foreign exchange rates or investment markets in 2H20.

1. EXECUTIVE SUMMARY

FY20 ‘low single digit’ GWP growth guidance maintained

FY20 GWP growth guidance of ‘low single digit’ has been maintained. GWP growth in 2H20 is expected to be of a similar pace to that recorded in 1H20, with contributory factors being:

- Anticipated rate increases across short tail personal lines;
- Modest volume growth in short tail personal lines;
- Further CTP premium reduction from cumulative price effects in response to scheme changes;
- Further average rate increases in commercial classes; and
- Lower commercial volumes in Australia, including business exit effects.

As originally indicated in August 2019, IAG is accelerating its spend on investments in the areas of data, artificial intelligence and innovation, and the associated businesses it is developing. It remains IAG’s expectation that the amount by which expenditure exceeds revenue will expand in FY20 and contribute to an increased pre-tax loss in the fee income line, of up to $50m.

2. STRATEGY

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

IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves, IAG exists to '**make your world a safer place**'. IAG believes its purpose will enable it to become a more sustainable business over the long term and deliver stronger and more consistent returns for its shareholders.

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

With simplification well-progressed, IAG is now increasing its focus on **customer engagement** and longer term growth. This includes extending its strategic partnerships to offer products and services that are adjacent to its insurance business, enabling IAG to make its customers and the community feel safer on the road, in their homes and at work. IAG is also leveraging its assets – including its data, customer reach and brands – to launch and scale new businesses in markets that complement these adjacent products and services.

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

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

I. Customer – World-leading customer experiences:

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

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

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

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

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

IAG is well-positioned to transition to the next era of its strategy, shifting its focus more towards customer-led growth. More detail will be provided around IAG's future plans at its Investor Day in Sydney on 14 May.

FINANCIAL TARGETS

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

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

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

3. GROUP RESULTS

FINANCIAL PERFORMANCE

GROUP RESULTS	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**5,881**	**6,124**	**5,962**
Gross earned premium	5,984	5,958	6,105
Reinsurance expense	(2,373)	(2,331)	(2,396)
Net earned premium	**3,611**	**3,627**	**3,709**
Net claims expense	(2,358)	(2,261)	(2,433)
Commission expense	(324)	(351)	(337)
Underwriting expense	(535)	(506)	(519)
Underwriting profit	**394**	**509**	**420**
Investment income on technical reserves	102	219	81
Insurance profit	**496**	**728**	**501**
Net corporate expense	5	(9)	(152)
Interest	(48)	(46)	(54)
Profit/(loss) from fee-based business	5	(14)	(2)
Share of profit from associates	19	26	29
Investment income on shareholders' funds	(7)	234	50
Profit before income tax and amortisation	**470**	**919**	**372**
Income tax expense	(123)	(240)	(90)
Profit after income tax (before amortisation)	**347**	**679**	**282**
Non-controlling interests	(25)	(73)	20
Profit after income tax and non-controlling interests (before amortisation)	**322**	**606**	**302**
Amortisation and impairment	(29)	(28)	(15)
Profit attributable to IAG shareholders from continuing operations	**293**	**578**	**287**
Net profit/(loss) after tax from discontinued operations	207	(2)	(4)
Profit attributable to IAG shareholders	**500**	**576**	**283**

Insurance Ratios - Continuing Business	1H19	2H19	1H20
Loss ratio	65.3%	62.3%	65.6%
Immunised loss ratio	64.6%	59.5%	65.6%
Expense ratio	23.8%	23.7%	23.1%
Commission ratio	9.0%	9.7%	9.1%
Administration ratio	14.8%	14.0%	14.0%
Combined ratio	89.1%	86.0%	88.7%
Immunised combined ratio	88.4%	83.2%	88.7%
Reported insurance margin	**13.7%**	**20.1%**	**13.5%**
Underlying insurance margin	**16.2%**	**16.9%**	**16.9%**

Key Financial Metrics (Total Operations)	1H19	2H19	1H20
Reported ROE (average equity) (% pa)	15.4%	18.4%	9.0%
Cash ROE (average equity) (% pa)	**9.8%**	**19.6%**	**12.1%**
Basic EPS (cents)	21.31	24.99	12.28
Diluted EPS (cents)	20.48	24.16	12.16
Cash EPS (cents)	13.60	26.56	16.49
Diluted cash EPS (cents)	**13.40**	**25.63**	**15.98**
DPS (cents)	**12.00**	**20.00**	**10.00**
Probability of adequacy	90%	90%	90%
CET1 multiple	**1.18**	**1.31**	**1.15**
PCA multiple	2.00	2.12	1.80

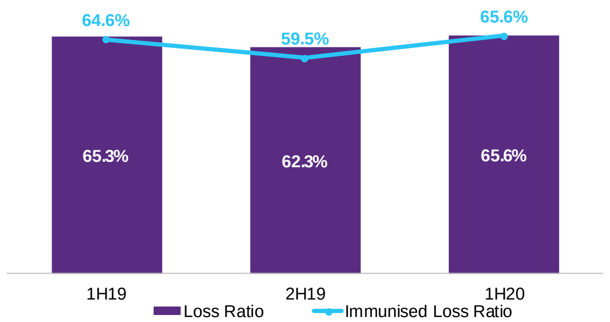
KEY FOREIGN EXCHANGE RATES APPLIED

Units of foreign currency per A$	Balance Sheet (spot rate)			Income Statement (average rate)	
	1H19	2H19	1H20	1H19	1H20
New Zealand dollar	1.0495	1.0449	1.0419	1.0816	1.0591
Malaysian ringgit	2.9115	2.9000	2.8754	2.9913	2.8510

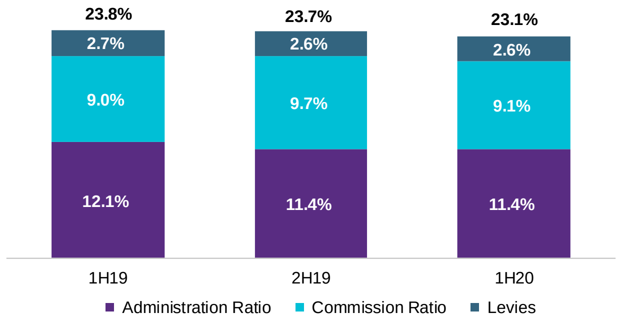
3. GROUP RESULTS

INSURANCE RATIOS

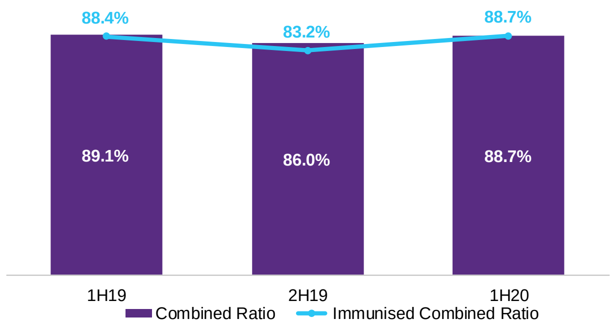
LOSS RATIO



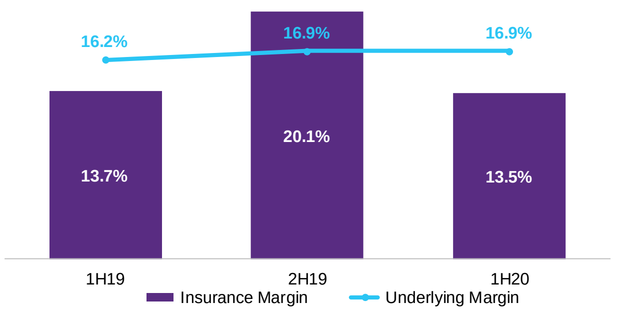
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



1H20 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A$m	New Zealand A$m	Corporate & Other A$m	Total A$m
Gross written premium	**4,608**	**1,348**	**6**	**5,962**
Gross earned premium	4,739	1,357	9	6,105
Reinsurance expense	(1,859)	(533)	(4)	(2,396)
Net earned premium	**2,880**	**824**	**5**	**3,709**
Net claims expense	(1,940)	(485)	(8)	(2,433)
Commission expense	(245)	(90)	(2)	(337)
Underwriting expense	(420)	(99)	-	(519)
Underwriting profit/(loss)	**275**	**150**	**(5)**	**420**
Investment income on technical reserves	74	6	1	81
Insurance profit/(loss)	**349**	**156**	**(4)**	**501**
Profit/(loss) from fee-based business	6	-	(8)	(2)
Share of profit/(loss) from associates	-	-	29	29
Total divisional results	**355**	**156**	**17**	**528**
Insurance Ratios				
Loss ratio	67.4%	58.9%		65.6%
Expense ratio	23.1%	22.9%		23.1%
Commission ratio	8.5%	10.9%		9.1%
Administration ratio	14.6%	12.0%		14.0%
Combined ratio	90.5%	81.8%		88.7%
Insurance margin	12.1%	18.9%		13.5%
Underlying insurance margin	16.1%	18.9%		16.9%

3. GROUP RESULTS

PREMIUMS

Reported 1H20 GWP of $5,962m represented an increase of 1.4% over 1H19, which is consistent with FY20 guidance of 'low single digit' growth. This comprised:

- Flat GWP of $4,608m in Australia; and
- Growth of 6.3% in New Zealand (to $1,348m), including a favourable foreign exchange translation effect of over 200bps.

Like-for-like GWP growth was ~2.5% after allowing for:

- The adverse impact of business exits concluded in FY19, principally in the area of commercial underwriting agencies in Australia;
- Lower CTP rates stemming from scheme change in all markets of operation; and
- A favourable foreign exchange translation effect regarding New Zealand.

In broad terms, personal lines growth was characterised by rate increases to match claims inflation, accompanied by relatively modest volume movement. Commercial rate increases remained a feature in both Australia and New Zealand, with volume loss in Australia contrasting with volume gain in New Zealand.

Reported GWP growth of 1.4% in 1H20…

…and like-for-like growth of ~2.5%

INSURANCE MARGIN

IAG's underlying insurance margin was 16.9%, consistent with 2H19 and higher than 1H19 (16.2%). Features of the net movement in underlying insurance margin compared to 1H19 were:

- Largely rate-driven growth in net earned premium in both Australia and New Zealand;
- Further net benefits of approximately $80m from the group-wide optimisation program which continued to track to plan;
- The absorption of approximately $20m of additional regulatory and compliance costs; and
- An approximately 70bps headwind from lower interest rates impacting investment income.

Higher underlying insurance margin of 16.9%, vs. 16.2% in 1H19

IAG's underlying insurance margin is its reported insurance margin adjusted for:

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

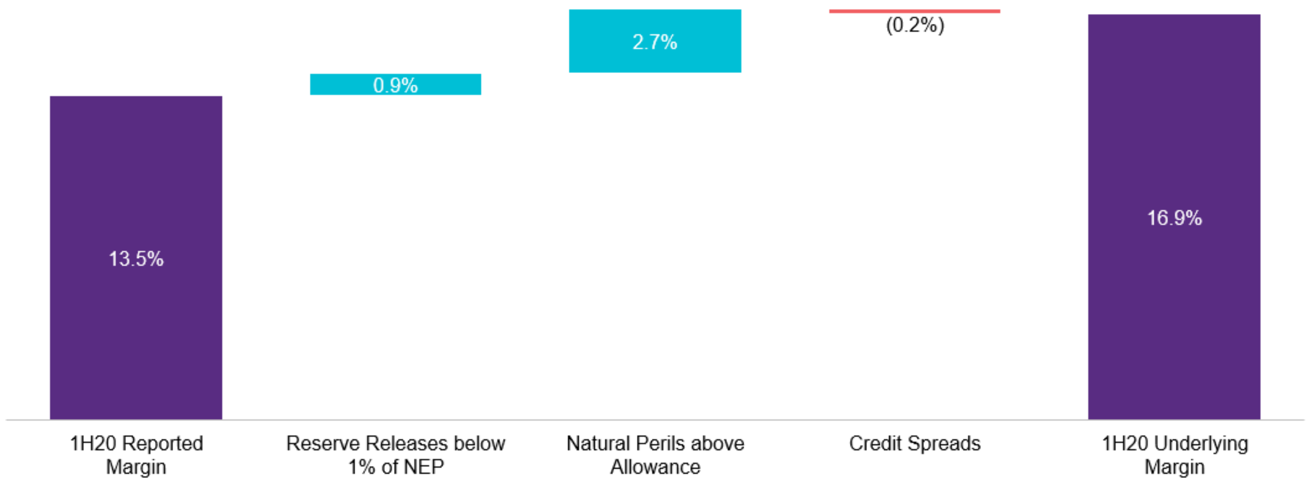
A similar reported margin of 13.5% (1H19: 13.7%) and a relatively steady insurance profit of $501m (1H19: $496m) included:

- An unfavourable net natural peril experience which saw related claim costs exceed allowance by $99m, compared to an overrun of $110m in 1H19;
- Lower than anticipated net prior period reserve releases of $5m (1H19: $83m), which represented 0.1% of NEP (1H19: 2.3%); and
- A greater than $30m favourable movement in credit spread impact, from a negative contribution of $24m in 1H19 to a positive input of $7m in 1H20.

Similar reported insurance margin of 13.5% vs. 1H19

3. GROUP RESULTS

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



INSURANCE MARGIN IMPACTS	1H19 A$m	2H19 A$m	1H20 A$m
Reserve releases	83	43	5
Natural perils	(414)	(213)	(419)
Natural peril allowance	304	304	320
Credit spreads	(24)	18	7
Reserve releases	2.3%	1.2%	0.1%
Natural perils	(11.5%)	(5.9%)	(11.3%)
Natural peril allowance	8.4%	8.4%	8.6%
Credit spreads	(0.7%)	0.5%	0.2%

The reported insurance profit reconciles to that in the Financial Report (Appendix 4D) after allowance for the customer refund provision reclassified to net corporate expenses for Investor Report purposes, as outlined below:

1H20 INSURANCE PROFIT	A$m
Investor Report	**501**
Customer refund provision	(150)
Financial Report (Appendix 4D)	**351**

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

REINSURANCE EXPENSE

Small decrease in underlying reinsurance expense

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

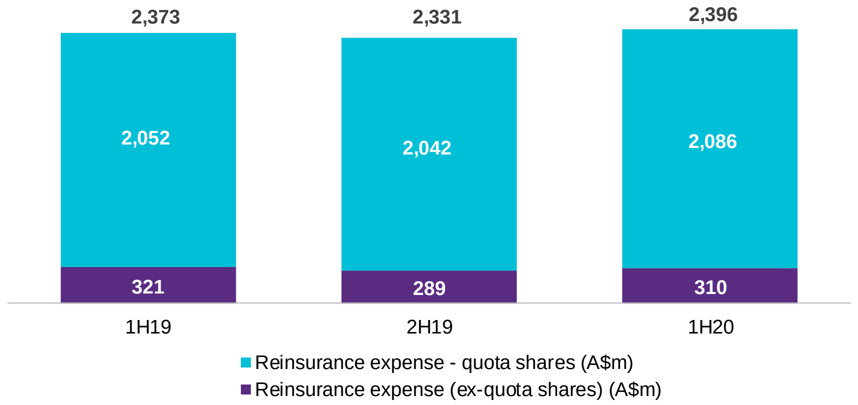
The 1H20 reinsurance expense of $2,396m compares to $2,373m in 1H19, an increase of approximately 1%. Quota share-related reinsurance expense increased by nearly 2%, broadly in line with gross earned premium growth, while a greater than 3% reduction in non-quota share reinsurance expense was derived from the net effect of:

- Modest overall aggregate growth;
- Changes to gross cover, including:
  - $1bn of increased cover at the top end of the calendar 2019 main tower; and

3. GROUP RESULTS

  - Higher attachment points for the calendar 2019 aggregate cover and FY20 stop-loss protection;
- Lower renewal costs for commercial line per risk excess of loss cover in Australia, reflecting improved large loss experience and lower commercial volumes; and
- Broadly similar catastrophe reinsurance rates.

REINSURANCE EXPENSE



CLAIMS

A higher immunised loss ratio of 65.6% (1H19: 64.6%) contained:

- A significantly lower net prior period reserve release contribution of $5m (1H19: $83m);
- Similar net natural peril claim costs of $419m (1H19: $414m); and
- An improved underlying claims performance, including further benefits from simplification of claims systems as part of IAG's optimisation program.

Higher loss ratio driven by lower prior period reserve releases

The 1H20 reported loss ratio was 65.6% (1H19: 65.3%). In addition to reserve release and peril movements, this included a negligible risk free discount rate adjustment, compared to an unfavourable effect of $26m in 1H19.

Reserve Releases

The 1H20 net claims expense included $5m of prior period reserve releases, equivalent to 0.1% of NEP (1H19: 2.3%). This outcome was lower than anticipated with stronger claim development across long tail classes than observed in recent years, together with the emergence of some large claims in excess of expectations. The overall small net release includes:

- Some reserve strengthening applicable to each of the ACT and South Australian CTP schemes that offset releases from NSW CTP;
- Strengthening of professional risks-related reserves, owing to higher than expected pre-2017 claim cost development;
- Workers' compensation reserve strengthening, much of which stemmed from one large claim; and
- A release from professional indemnity exposures to residual post-Canterbury earthquake risks in New Zealand.

Lower than anticipated reserve releases owing to adverse long tail development

Release outcomes continue to experience a lower contribution from NSW CTP that reflects the introduction of the new capped profitability scheme from 1 December 2017.

3. GROUP RESULTS

RESERVE RELEASES	1H19 A$m	2H19 A$m	1H20 A$m
Reserve releases	83	43	5
Impact on insurance margin	**2.3%**	**1.2%**	**0.1%**

As embodied in its underlying insurance margin definition, IAG continues to believe average long term reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods. This reflects IAG's approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years.

IAG has lowered its FY20 guidance for reserve releases to ~0.5% of NEP (from ~1%) to reflect the 1H20 outcome and an assumed 2H20 run rate of up to 1% of NEP.

Natural Perils

Net natural peril claim costs $99m above allowance

Net natural peril claim costs in 1H20 were $419m, which was $99m higher than the allowance for the period (1H19: $110m above allowance). This is slightly higher than the indication of $400m originally provided on 3 January 2020 owing to higher than anticipated attritional experience in December.

NATURAL PERILS	1H19 A$m	2H19 A$m	1H20 A$m
Net natural peril claim costs	(414)	(213)	(419)
Natural peril allowance	304	304	320
Impact on insurance margin	**(110)**	**91**	**(99)**
Impact on insurance margin	**(3.1%)**	**2.5%**	**(2.7%)**

1H20 was characterised by heightened bushfire activity in Australia, exacerbated by prolonged drought and extreme weather conditions. IAG received around 10,000 bushfire-related claims, amounting to a net natural peril claim cost of over $180m, or in excess of 40% of the total for the period.

The respective costs of four bushfire events (defined by geography and duration), which commenced during December 2019, were capped by application of the calendar 2019 aggregate cover. This cover extended until each event's expiry, with three out of four expiring in January. Overall calendar 2019 aggregate recoveries recognised in 1H20 exceeded $280m, against a total available cover of $321m post-quota share.

1H20 NATURAL PERIL COSTS BY EVENT	A$m
Mid-north NSW bushfires (November 2019)	74
Sunshine Coast (Queensland) hail and thunderstorms (November 2019)	34
Canterbury (New Zealand) hailstorm (November 2019)	36
NSW bushfires (early December 2019)*	38
South Australian bushfires (December 2019)*	17
Victorian bushfires (December 2019)*	17
NSW bushfires (late December 2019)*	17
Other events (<$15m)	186
Total	**419**

** Net of reinsurance recoveries*

Attritional peril events (below $15m in size) in 1H20 amounted to $186m, compared to $162m in 1H19.

3. GROUP RESULTS

EXPENSES

Total net operating expenses (commission and underwriting) were $856m, compared to $859m in 1H19.

On a pre-quota share and levies basis, underwriting expense levels continued to trend down after allowance for increased regulatory and compliance costs, which were ~$20m higher in 1H20 than 1H19.

IAG continues to expect an incremental pre-tax benefit of approximately $160m from its optimisation program in FY20, compared to FY19. This is spread across the underwriting expense, claims expense and fee-based business lines, with the majority of the 1H20 improvement of approximately $80m occurring in the claims expense.

It remains IAG's expectation that higher pre-tax regulatory and compliance costs will counter this by ~$50m in FY20, sourced from a mixture of increased regulatory requirements and investment in risk-related systems and resources.

The reported expense ratio improved to 23.1% (1H19: 23.8%), while on an ex-levies basis the administration ratio fell to 11.4% (1H19: 12.1%). The commission ratio was similar to 1H19, at 9.1%.

Improved expense ratio, as further optimisation benefits realised

EXPENSES	1H19 A$m	2H19 A$m	1H20 A$m
Gross underwriting expense ex levies	781	745	761
Levies	164	143	169
Total gross underwriting expenses	**945**	**888**	**930**
Gross commission expense	487	524	506
Total gross expenses	**1,432**	**1,412**	**1,436**
Reinsurance commission revenue	(573)	(555)	(580)
Total net expenses	**859**	**857**	**856**

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H20 was $81m, compared to $102m in 1H19. This outcome includes:

- The impact of slightly lower average investment assets;
- A minor movement in the yield curve since 30 June 2019; and
- A positive effect of $7m from the narrowing of credit spreads, compared to a loss of $24m in 1H19 from the widening of spreads.

After allowance for the factors outlined above, the average yield achieved in 1H20 was lower than that of 1H19.

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 1H19

NET CORPORATE EXPENSE

Net corporate expense in 1H20 amounted to a loss of $152m. The main contributory factor was a $150m pre-tax provision for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. The provision is associated with a multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for some customers. After tax and non-controlling interest, the net cost of this provision to IAG was $82m.

$150m pre-tax provision for customer refunds in net corporate expense

3. GROUP RESULTS

1H20 CUSTOMER REFUND PROVISION	A$m
Gross provision	180
Quota share recovery	(30)
Corporate expense	**150**
Income tax	(45)
Non-controlling interest	(23)
Net provision	**82**

FEE-BASED BUSINESS

Fee-based business contributed a loss of $2m in 1H20, compared to a profit of $5m in 1H19. This period's result comprised:

- An $8m profit (1H19: $12m) from IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government. A similar underlying performance was achieved after allowance for $5m of prior period fee income (1H19: $10m), which is typically reported in the opening half of the financial year; and
- A $10m loss from investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives, including:
    - Costs associated with mobility initiatives, including those arising from the trials of the Safer Journeys crash detection and response service;
    - An initial loss from the Carbar digital car-trading platform business in which a 51% interest was acquired at the end of FY19;
    - A small loss from Ambiata, the specialist data activation business; and
    - Net costs from the innovation hubs run by Firemark Labs in Sydney and Singapore.

Increased fee-based loss of up to $50m expected for FY20

As IAG accelerates its spend on investments in the areas of data, artificial intelligence and innovation, and the associated businesses it is developing, the amount by which expenditure exceeds revenue is expected to expand. IAG continues to expect an increased pre-tax loss in the fee income line of up to $50m in FY20. Specific areas of intended expenditure in 2H20 include:

- Scaling existing business investments that have previously been in early customer testing phases;
- New mobility services, including the acceleration of the development of Carbar and a full launch of Safer Journeys;
- Increased investment in customer identity and consent functionality; and
- The next wave of investment in new business opportunities.

SHARE OF ASSOCIATES

The combined contribution from associates was a profit of $29m (1H19: $19m), largely derived from IAG's interests in Malaysia and India.

SHARE OF PROFIT FROM ASSOCIATES	1H19 A$m	2H19 A$m	1H20 A$m
Malaysia	17	21	20
India	13	14	16
Asia support costs	(12)	(9)	(7)
Other	1	-	-
Total share of profit from associates	**19**	**26**	**29**

3. GROUP RESULTS

Malaysia

IAG owns 49% of AmGeneral, the general insurance arm of AmBank Group, Malaysia's sixth largest bank. Established in 2006, the joint venture became one of the largest motor insurers in Malaysia following the acquisition of Kurnia Insurans (Malaysia) Berhad in September 2012. Since March 2013, the business has operated as AmGeneral Insurance Berhad using two market-leading brands, AmAssurance and Kurnia.

AmGeneral's GWP grew by 10.7% in 1H20, and by over 5% in local currency terms. This growth was driven by higher motor volumes in AmGeneral's core agency channel along with strong growth in fire volumes across all channels.

AmGeneral's 1H20 insurance margin of 16.2% was higher than 1H19 (14.7%), reflecting the combination of:

- Higher net earned premium driven by sound growth in a subdued market;
- Lower bodily injury-related prior period releases;
- Pricing competition in the partly liberalised market in both motor and fire classes; and
- Higher investment returns due to mark-to-market gains on investments.

IAG received a dividend of approximately $29m from AmGeneral in 1H20.

Sound GWP growth and strong margin from AmGeneral in Malaysia

AMGENERAL Financial Performance	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**252**	**271**	**279**
Gross earned premium	252	263	277
Reinsurance expense	(21)	(24)	(24)
Net earned premium	**231**	**239**	**253**
Net claims expense	(135)	(145)	(151)
Commission expense	(27)	(27)	(27)
Underwriting expense	(55)	(59)	(57)
Underwriting profit	**14**	**8**	**18**
Investment income on technical reserves	20	26	23
Insurance profit	**34**	**34**	**41**
Net profit after tax	**34**	**43**	**41**
Net profit after tax - IAG's share (49%)	**17**	**21**	**20**
Insurance Ratios	**1H19**	**2H19**	**1H20**
Loss ratio	58.4%	60.7%	59.7%
Expense ratio	35.5%	36.0%	33.2%
Commission ratio	11.7%	11.3%	10.7%
Administration ratio	23.8%	24.7%	22.5%
Combined ratio	93.9%	96.7%	92.9%
Insurance margin	14.7%	14.2%	16.2%

India

IAG owns a 26% interest in SBI General, a joint venture with State Bank of India (SBI), India's largest bank. SBI General commenced underwriting in April 2010 and has built a portfolio with a presence in the retail, SME and corporate markets across India, with access to SBI's extensive bancassurance channel.

On 17 October 2019 IAG announced the agreed sale of its entire 26% interest in SBI General via two transactions. These are expected to conclude in 2H20, once associated regulatory processes and approvals are complete, resulting in an expected increase in IAG's regulatory capital position of over $400m and a net profit after tax of in excess of $300m.

Sale of India expected to complete in 2H20

3. GROUP RESULTS

SBI GENERAL Financial Performance	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**453**	**536**	**745**
Gross earned premium	447	507	694
Reinsurance expense	(211)	(255)	(352)
Net earned premium	**236**	**252**	**342**
Net claims expense	(176)	(174)	(256)
Commission and underwriting expenses	(44)	(77)	(81)
Underwriting profit	**16**	**1**	**5**
Investment income on technical reserves	33	53	56
Insurance profit	**49**	**54**	**61**
Net profit after tax	**52**	**52**	**63**
Net profit after tax - IAG's share (26%)	**13**	**14**	**16**

Insurance Ratios	1H19	2H19	1H20
Loss ratio	74.6%	69.0%	74.9%
Expense ratio	18.6%	30.6%	23.7%
Combined ratio	93.2%	99.6%	98.6%
Insurance margin	20.8%	21.4%	17.8%

SBI General recorded GWP growth of over 64% in 1H20, or 55% in local currency terms. This was driven by continued growth in crop insurance volumes and strong growth in the bancassurance channel, particularly in personal accident and health products.

SBI General reported an improved insurance profit of $61m in 1H20 (1H19: $49m), which included:

- Strong net earned premium growth, reflecting strong top line momentum;
- Lower reinsurance exchange commission; and
- Higher investment income.

SBI General's net profit after tax was $63m (1H19: $52m), with IAG's share approximately $16m.

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Profit on shareholders' funds includes strong equity market performance

Investment income on shareholders' funds was a profit of $50m, compared to a loss of $7m in 1H19. The stronger result compared to 1H19 included:

- Relative strength in equity markets, both domestic and offshore;
- A positive return from alternative investments; and
- An $8m writedown of IAG's 16.9% interest in Bohai China.

The S&P ASX200 Accumulation Index in Australia delivered a positive return of 3.1% in 1H20 (1H19: -6.8%), while the MSCI World Total Return Index (AUD Hedged) produced a positive return of 8.9% (1H19: -8.7%).

At 31 December 2019, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was 51%, compared to nearly 58% at FY19. To a large extent the lower weighting reflects the repayment of the $550m Reset Exchangeable Securities from fixed interest and cash funds in December 2019.

3. GROUP RESULTS

TAX EXPENSE

IAG reported a tax expense of $90m in 1H20 (1H19: $123m), representing an effective tax rate (pre-amortisation and impairment) of 24.2% (1H19: 26.2%).

Contributory elements reconciling the 1H20 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.

Effective 1H20 tax rate of 24.2%

NON-CONTROLLING INTERESTS

Non-controlling interests increased IAG's profit after tax by $20m, compared to a reduction of $25m in 1H19.

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 loss in 1H20 owing to:

- The impact of the bushfire events in NSW and Victoria and the timing of IMA's reinsurance program which runs to a financial year basis; and
- IMA's share of the provision for customer refunds.

Secondary elements to non-controlling interests stem from operations such as Carbar and the Repairhub motor repair joint venture with RACV, both of which are presently in small loss-making positions.

Non-controlling interests reflect bushfire and customer refund impacts on IMA result

AMORTISATION

A lower amortisation and impairment expense of $15m (1H19: $29m) reflects the completion of amortisation of acquired intangibles associated with the former Wesfarmers business at the end of FY19. Further reduction in the amortisation expense is expected in future periods as AMI-related intangibles also move to a fully amortised position.

EARNINGS PER SHARE

Diluted cash earnings per share (cash EPS) in 1H20 was 15.98 cents per share (cps), an increase of 19.3% compared to 1H19. Reported earnings per share (EPS) in 1H20 was 12.28cps, which was over 42% lower than 1H19, and on a diluted basis was 12.16cps (1H19: 20.48cps).

1H20 basic EPS was calculated on lower weighted average equity on issue (excluding treasury shares) of 2,304.9m shares (1H19: 2,346.2m), reflecting the full effect of the share consolidation completed on 5 November 2018. Diluted EPS was based on 2,508.6m shares after allowance for potential equity issuance from hybrid debt conversion (1H19: ~2,557m).

19.3% increase in diluted cash EPS to 15.98 cents

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,311.0
Balance at the end of the half year	**2,311.0**
Average weighted shares on issue	2,311.0
Less: Treasury shares held in trust	(6.1)
Average weighted shares on issue - basic EPS	**2,304.9**
Add: Treasury shares held in trust	6.1
Add: Potential dilutionary issues from hybrid debt instruments	197.6
Average weighted potential shares on issue - diluted EPS	**2,508.6**

3. GROUP RESULTS

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

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

CASH EARNINGS	1H20 A$m
Net profit after tax	**283**
Acquired intangible amortisation and impairment	15
Unusual items:	
- Corporate expenses	152
- Tax effect on corporate expenses	(47)
- Non-controlling interest in corporate expenses	(23)
Cash earnings	**380**
Dividend payable	**231**
Cash payout ratio	**60.8%**

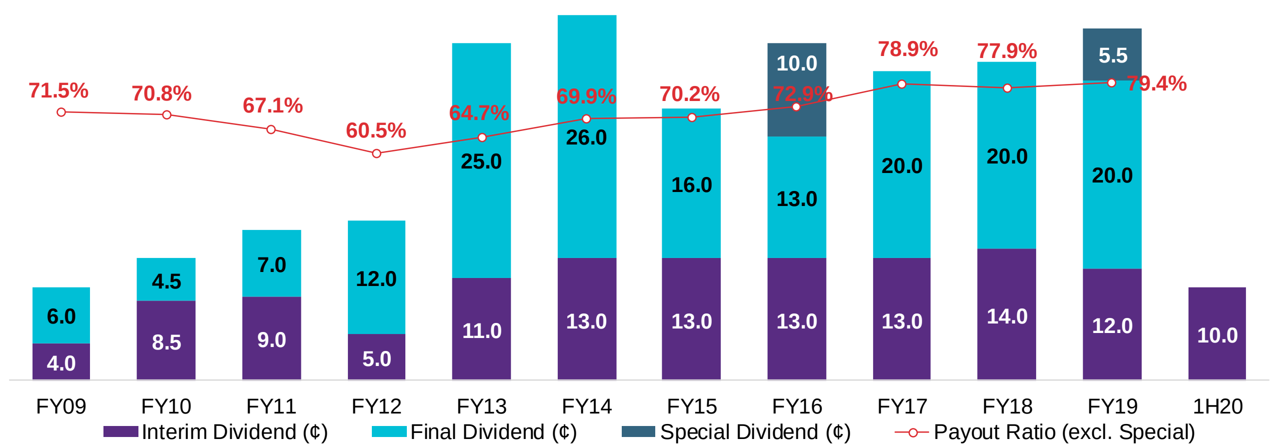
DIVIDEND

The Board has determined to pay an interim dividend of 10.0 cents per share, franked to 70% (1H19: 12.0cps, fully franked). The interim dividend is payable on 25 March 2020 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 19 February 2020.

The interim dividend equates to a payout ratio of 60.8% of cash earnings. IAG's dividend policy is to pay out 60-80% of cash earnings in any full financial year.

Interim dividend of 10 cents – nearly 61% of cash earnings

DIVIDEND HISTORY – FY09-1H20



As at 31 December 2019, and prior to allowance for payment of the interim dividend, IAG's franking balance was $77m, including its 70% entitlement to franking held by IMA.

The dividend reinvestment plan (DRP) will operate for the interim dividend for DRP-registered shareholders as at 5pm AEDT on 20 February 2020. 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.

3. GROUP RESULTS

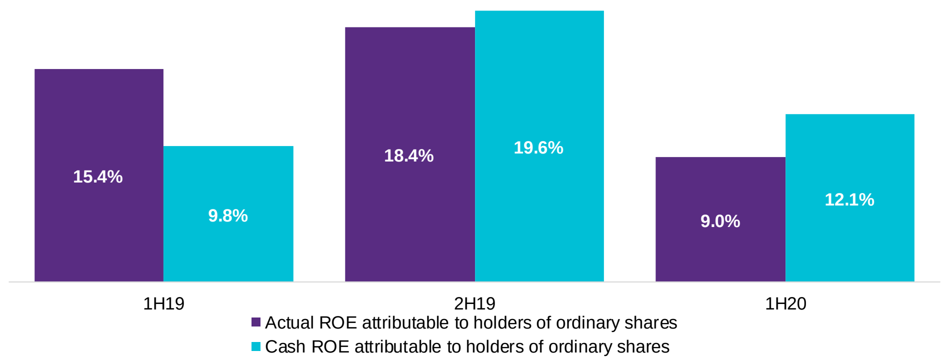
RETURN ON EQUITY

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

IAG's current long term cost of capital is approximately 10%, equating to a cash ROE target of approximately 15%. In 1H20, IAG reported a cash ROE of 12.1% (1H19: 9.8%).

Cash ROE of 12.1%

RETURN ON EQUITY (ANNUALISED)



4. AUSTRALIA

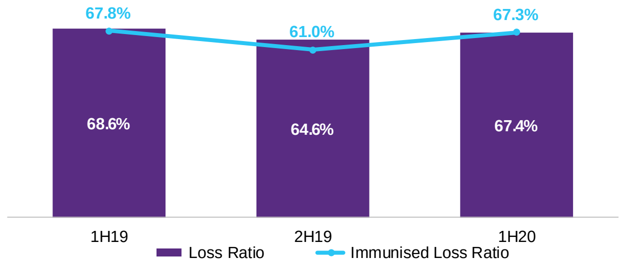
FINANCIAL PERFORMANCE

AUSTRALIA	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**4,606**	**4,725**	**4,608**
Gross earned premium	4,698	4,625	4,739
Reinsurance expense	(1,864)	(1,807)	(1,859)
Net earned premium	**2,834**	**2,818**	**2,880**
Net claims expense	(1,943)	(1,821)	(1,940)
Commission expense	(239)	(251)	(245)
Underwriting expense	(437)	(401)	(420)
Underwriting profit	**215**	**345**	**275**
Investment income on technical reserves	89	193	74
Insurance profit	**304**	**538**	**349**
Profit/(loss) from fee-based business	9	(10)	6
Share of profit from associates	1	1	-
Total divisional result	**314**	**529**	**355**

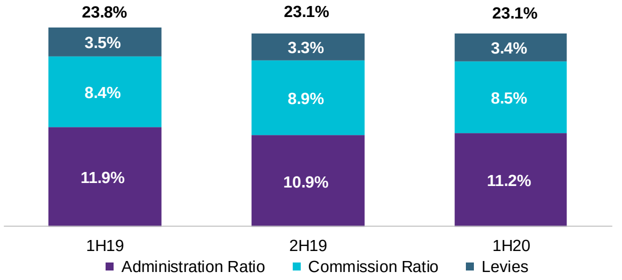
Insurance Ratios	1H19	2H19	1H20
Loss ratio	68.6%	64.6%	67.4%
Immunised loss ratio	67.8%	61.0%	67.3%
Expense ratio	23.8%	23.1%	23.1%
Commission ratio	8.4%	8.9%	8.5%
Administration ratio	15.4%	14.2%	14.6%
Combined ratio	92.4%	87.7%	90.5%
Immunised combined ratio	91.6%	84.1%	90.4%
Reported insurance margin	10.7%	19.1%	12.1%
Underlying insurance margin	14.8%	16.2%	16.1%

INSURANCE RATIOS

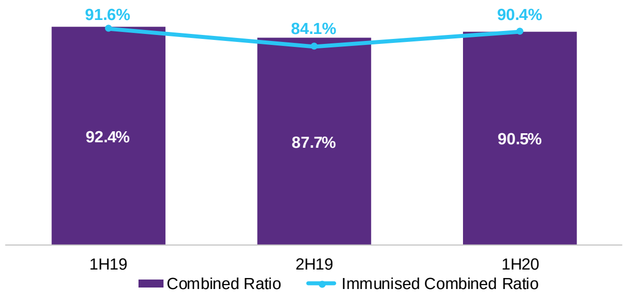
LOSS RATIO



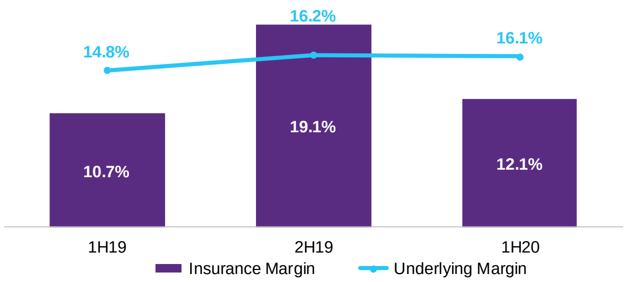
EXPENSE RATIOS



COMBINED RATIO



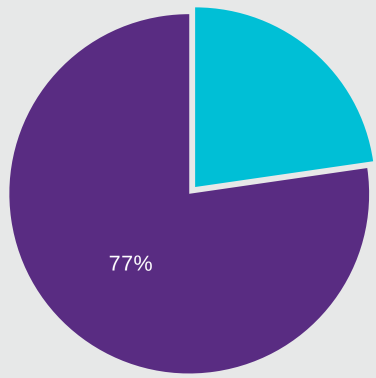
INSURANCE MARGIN



4. AUSTRALIA

EXECUTIVE SUMMARY

- IAG has leading market shares in personal and commercial insurance lines in Australia, with products sold under brands including NRMA Insurance, CGU, WFI, SGIO and SGIC
- Omni-channel offerings, through call centres, branches, digital and intermediaries: personal lines predominantly sold directly, while commercial lines mainly pass through intermediaries
- Flat reported GWP reflecting lower post-reform CTP rates and discontinued business impacts – like-for-like GWP growth of around 2%
- Solid underlying profitability, consistent with 2H19
- Higher reported margin of 12.1% despite substantial adverse movement in prior period reserving
- Modest GWP growth expected in 2H20, owing to continued impact of CTP price reductions and discontinued businesses
- Steady underlying margin outlook for balance of FY20



PREMIUMS

Australia reported GWP of $4,608m in 1H20, which was marginally above 1H19. Like-for-like GWP growth was around 2%, after allowing for ongoing reform-driven reductions in CTP rates and the absence of premium from businesses exited towards the end of FY19.

Like-for-like GWP growth of around 2%, after allowing for CTP price reductions and business exits

The overall Australian GWP outcome includes:

- Largely rate-driven growth of over 3% in short tail motor, broadly in line with claims inflation pressures;
- Home growth of over 4%, primarily rate-derived with minor offset from volume slippage;
- A near-9% contraction in long tail CTP, from a mixture of scheme change-driven rate reductions and some modest volume loss; and
- A modest contraction in like-for-like commercial lines, with average rate increases of ~5.5% countered by lower volumes.

GWP associated with business exits amounted to approximately $54m in 1H19 and attached to divested underwriting agency interests (notably A&HI) and ceased fleet leasing activities.

As notified in February 2019, with effect from FY20 IAG ceased segmenting its Australian results into ‘Consumer’ and ‘Business’ as this no longer aligns with the way management looks at the Australian operations, which is as one unit.

IAG will continue to provide segment-based premium analysis. This has been refined (and comparative figures have been restated accordingly) with the formerly-titled ‘Consumer’ expanded to include Swann Insurance, agency and WFI-related personal lines previously included under ‘Business’, and renamed ‘personal’. These additions accounted for $103m of GWP in FY19. Correspondingly, the former ‘Business’ heading has been renamed ‘commercial’ after removing the aforementioned Swann Insurance, agency and WFI-related personal lines.

Personal

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

Personal GWP growth of 2.0%, including 3.6% increase in short tail

4. AUSTRALIA

Personal lines GWP increased 2.0% to $3,264m (1H19: $3,199m).

PERSONAL GWP	1H19 A$m	2H19 A$m	1H20 A$m	GWP Growth 1H20 vs 1H19
Motor	1,524	1,608	1,574	3.3%
Home	1,211	1,189	1,261	4.1%
Niche & Other	65	62	65	-
Total Short Tail	**2,800**	**2,859**	**2,900**	**3.6%**
Long Tail	399	400	364	(8.8%)
Total GWP	**3,199**	**3,259**	**3,264**	**2.0%**

Short tail lines represented nearly 89% of personal GWP in 1H20, with approaching 98% of this derived from motor and home classes. Compared to 1H19, overall personal short tail GWP growth was 3.6%.

Motor GWP increased 3.3%, compared to 1H19. This was driven by higher rates that responded to ongoing motor claim inflation pressures. Overall motor volumes were similar to 1H19, comprising:

- Further strong growth in Victoria;
- Minor contraction in NSW; and
- Some volume loss in other states.

Home GWP rose by 4.1% against 1H19. This movement housed:

- Average rate increases of ~4.5%, which largely met claims inflation; and
- A slight reduction in overall volumes. Strong growth was recorded in Victoria, offset by lower volumes in the intermediated channel and Western Australia, and to a lesser extent South Australia and Queensland.

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

GWP from niche and other short tail lines, comprising boat, caravan, classic car and other specialty products, was similar to 1H19.

In personal, the main brands' online sales channel continued to grow in 1H20, with NRMA Insurance conducting approximately 33% of new business sales and renewals online.

Continued focus on enhancing the digital experience and building awareness with customers led to an increase of over 11% in customer-initiated digital self-service interactions for the combined NRMA Insurance, SGIO and SGIC brands.

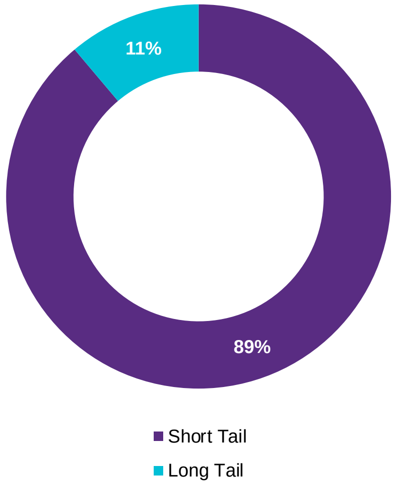
Other features of personal short tail GWP performance were:

- Further strong growth via the intermediated partnership with Steadfast;
- Some offset from lower personal volumes sold through other broker relationships; and
- Lower GWP from the SGIO brand in Western Australia, where more competitive conditions remain a feature.

Long tail (CTP) GWP was 8.8% lower than 1H19, reflecting scheme and competitive changes in the three states or territories of operation. This comprised:

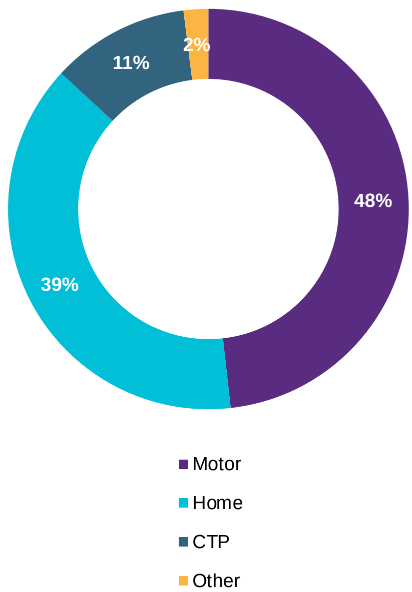
- An 8% drop in NSW GWP, generated by price reductions in March and November 2019, alongside some loss of volume. IAG's share of NSW CTP registrations (on a 12-month rolling average basis) has reduced to 32.5% (1H19: 33.7%);

PERSONAL 1H20 GWP - TAIL



Motor GWP growth of 3.3%, primarily rate-driven

PERSONAL 1H20 GWP - CLASS

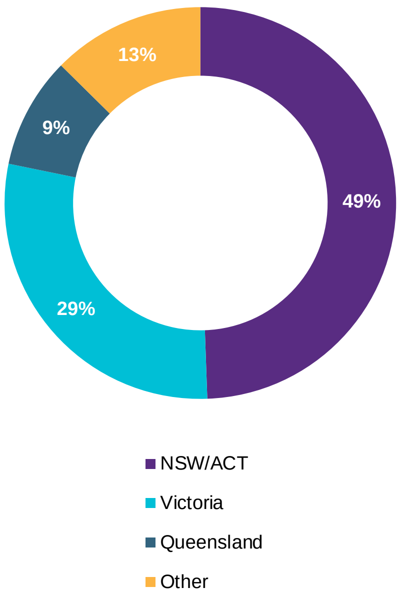


CTP GWP nearly 9% lower from range of scheme change and competitive influences

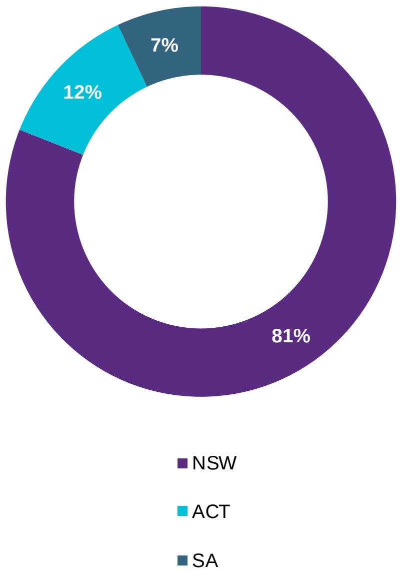
4. AUSTRALIA

- A 12% increase in ACT GWP, with strong volume growth partially offset by lower prices in the lead-up to the new scheme, which came into force on 1 February 2020. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) increased to 60% (1H19: 55%); and
- A greater than 30% fall in South Australian GWP, reflecting price reductions (including one of ~30% in mid-September 2019) and increased customer churn as the market became fully competitive from 1 July 2019. From a fixed share of 20% up until 30 June 2019, IAG's market share initially dropped to ~17% before recovering to 19% by December 2019. All insurers are now priced at the floor set by the regulator.

PERSONAL 1H20 SHORT TAIL GWP – STATE/TERRITORY



PERSONAL 1H20 LONG TAIL GWP – STATE/TERRITORY



Commercial

IAG 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.

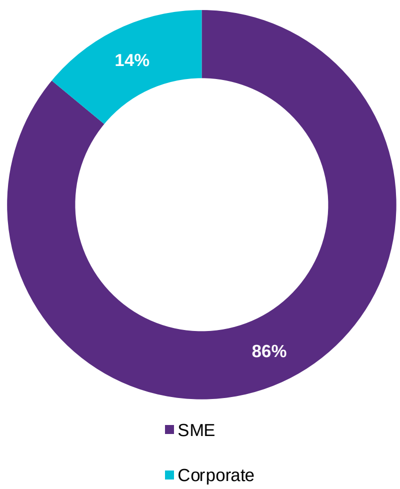
COMMERCIAL GWP	1H19 A$m	2H19 A$m	1H20 A$m	GWP Growth 1H20 vs 1H19
Short Tail	982	980	914	(6.9%)
Long Tail	425	486	430	1.2%
Total GWP	**1,407**	**1,466**	**1,344**	**(4.5%)**

Commercial GWP declined by 4.5% to $1,344m, compared to 1H19 ($1,407m). This comprised:

- Lower GWP as a result of exited underwriting agency and fleet leasing activities, accounting for a combined drop in related GWP of ~$54m;
- Further targeted rate increases across most business classes;
- Reduced volumes in packaged portfolios;
- Slightly lower retention levels in other key portfolios; and
- Lower new business volumes.

Lower commercial GWP: rate increases more than offset by lower volume and divestment effects

COMMERCIAL 1H20 GWP – MARKET SEGMENT



4. AUSTRALIA

Excluding exited business effects, like-for-like commercial GWP in 1H20 was approximately 0.7% lower than 1H19, comprising ongoing rate increases and overall volume loss of around 6%.

Average rate increases of around 5.5% were achieved in 1H20, in line with the expectations held at the beginning of the year. Rate movements continued to vary by segment, with portfolios such as liability, construction and engineering, property and motor experiencing up to double digit increases, and commoditised packaged products achieving single digit rate increases. Whilst delivering appropriately priced business, these increases have adversely impacted volumes.

During 1H20, property volumes stabilised after conclusion of the remediation activity that commenced in FY17. A focus on reducing volatility through managing capacity and better risk selection continued to deliver improved underlying profitability.

Workers' compensation GWP decreased by 7%, compared to a particularly strong performance in 1H19. Reduced GWP in 1H20 reflected lower multi-year policy volumes.

Intermediated packaged GWP was 9% lower than 1H19 as a result of reduced new business and retention volumes in an increasingly competitive market, while crop volumes were adversely impacted by the ongoing drought conditions in NSW. The impact of the drought on other agricultural portfolios is beginning to harm related volumes.

After allowing for divested agency interests, underwriting agencies delivered GWP growth of 14% compared to 1H19. This was primarily derived from NTI, the heavy haulage and marine insurance joint venture, which continues to perform strongly.

The direct portfolio experienced modest GWP growth. Direct represented 25% of commercial GWP in 1H20.

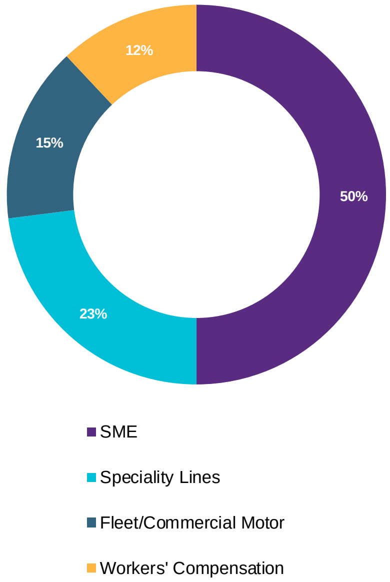
Long tail classes formed 32% of commercial GWP in 1H20 (1H19: >30%).

Customer Initiatives

The Australian business continues to enhance its product offering, strengthen its partnerships and improve the quality of its customer service. In 1H20 this included:

- Further enhancement of SME customers' digital experience, including the launch of CGU's Robo Advice tool, which utilises third party data to help calculate appropriate cover;
- The launch of CGU's new brand position of Insuring Ambition through a small business rescue campaign to promote and support entrepreneurial spirit. So far, the campaign has attracted heightened interest in the CGU website and strong engagement on social media;
- The launch of NRMA Insurance's new home insurance campaign, *Every home is worth protecting*. This reached two-thirds of the NSW and Queensland population and delivered top quartile results for brand tracking, outperforming industry benchmarks. The campaign featured a partnership with Conservation Volunteers Australia, where a tree is planted in koala habitats for every new home policy sold during the campaign period. Over 40,000 trees have been planted to date;
- The National Roads and Motorists' Association (NRMA) becoming an Authorised Representative to enable it to market and distribute NRMA Insurance products to its members and customers. Collaboratively built digital sales capability on NRMA's website (myNRMA) is expected to create further sales opportunities for NRMA Insurance motor and CTP products in NSW and the ACT; and

COMMERCIAL 1H20 GWP – CLASS



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- A pilot launch of NRMA Emergency Home Assistance (EHA) into the NSW market in December 2019, combining the capabilities, assets, products, services and customer reach of IAG and RACV to deliver a subscription-based property repair offering. EHA offers customers 24/7 assistance for their plumbing and electrical emergencies, providing a rapid response from trusted and accredited tradespeople.

REINSURANCE EXPENSE

Slightly lower underlying reinsurance expense

Australia's reinsurance expense was $1,859m, compared to $1,864m in 1H19. The underlying reinsurance expense was slightly lower than 1H19, reflecting the combination of:

- Modest aggregate growth in personal lines;
- Lower commercial volumes;
- Changes to gross cover;
- Lower renewal costs for commercial line per risk excess of loss cover; and
- Broadly similar catastrophe reinsurance rates.

CLAIMS

Immunised loss ratio similar to 1H19

Australia's 1H20 immunised loss ratio of 67.3% was similar to that of 1H19 (67.8%). However, this was a deterioration against the 61.0% registered in 2H19, which benefited from higher reserve releases and a reinsurance-protected favourable perils outcome.

Compared to 1H19, the 1H20 immunised claims ratio contained:

- Lower net natural peril claim costs; and
- A significantly adverse movement in prior period reserving.

Benefits from the increased utilisation of IAG's preferred repairer network were realised, alleviating increased short tail claim cost pressures.

The reported loss ratio of 67.4% contained an insignificant risk free discount rate adjustment, compared to an adverse effect of $22m in 1H19.

Reserve Releases

Modest reserve strengthening from combination of factors

Prior period reserve strengthening of $7m was in contrast to 1H19 which saw releases of $82m (2.9% of NEP). This outcome was lower than anticipated with stronger claim development across long tail classes than observed in recent years, together with the emergence of some large claims in excess of expectations. The overall small strengthening included:

- Some reserve strengthening applicable to each of the ACT and South Australian CTP schemes that offset releases from NSW CTP;
- Strengthening of professional risks-related reserves, owing to higher than expected pre-2017 claim cost development; and
- Workers' compensation reserve strengthening, much of which stemmed from one large claim.

Release outcomes continue to experience a lower contribution from NSW CTP that reflects the introduction of the new capped profitability scheme from 1 December 2017. This was in line with expectations.

RESERVE RELEASES Australia	1H19 A$m	2H19 A$m	1H20 A$m
Reserve releases	82	33	(7)
Impact on insurance margin	**2.9%**	**1.2%**	**(0.2%)**

4. AUSTRALIA

It is anticipated that reserve releases in 2H20 will more closely approximate an annualised run rate of 1% of NEP, in line with IAG's long term expectation.

Natural Perils

Losses from natural perils (net of reinsurance) totalled $362m, which was $85m higher than the period's allowance. A major contributory factor was the series of severe bushfire events which affected the drought-stricken country from September 2019 onwards. Collectively these contributed over $180m of net claim costs, despite events towards the end of the period being capped by recoveries under the calendar 2019 aggregate cover.

Also of note during 1H20 was the Sunshine Coast hail and thunderstorms event in November 2019, which resulted in a net claim cost of $34m.

The higher net natural peril claim costs in 1H19 were driven by a $162m net cost from the Sydney hailstorm in December 2018.

Unfavourable net natural peril experience, including a series of severe bushfire events

NATURAL PERILS Australia	1H19 A$m	2H19 A$m	1H20 A$m
Net natural peril claim costs	(409)	(203)	(362)
Natural peril allowance	262	263	277
Impact on insurance margin	**(147)**	**60**	**(85)**
Impact on insurance margin	**(5.2%)**	**2.1%**	**(3.0%)**

Claims Experience

Australia's underlying claims ratio (excluding reserve releases, natural perils and discount rate adjustments) was 54.5%, showing sound improvement against 1H19. This included the net effect of:

- Lower large loss experience in commercial packaged products, including farm;
- Stable current year experience in overall commercial long tail portfolios;
- Benefits from increased use of IAG's preferred repairer network;
- The earned-through effect of higher rates;
- Increased average claim costs within personal products, partially offset by a reduction in motor frequency; and
- The realisation of claims handling benefits from the optimisation program.

Improved underlying claims performance compared to 1H19

Short tail personal claims experience in 1H20 was characterised by:

- A further increase in average motor collision costs, the main driver being the continued rise in the proportion of total losses;
- Increased average home claim costs driven by inflationary increases in property repair costs and a small increase in larger value claims; and
- A reduction in motor frequency.

NSW CTP claims continue to be favourable against expectations under the new scheme, however longer term claim trends will only emerge over a number of years.

Underlying claims performance in commercial improved against 1H19, driven by lower large loss experience across motor and property classes within packages, and lower average claim size and frequency in motor.

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.

4. AUSTRALIA

Repairhub, the majority-owned motor repair joint venture established with RACV towards the end of FY19, is progressing well. This entails an enhanced motor repair model to improve the consistency and quality of repairs, as well as improving the customer experience by getting cars back on the road quickly. Also involving two repair partners, Repairhub presently covers six sites in metropolitan centres, with further geographic expansion planned for 2H20.

As part of the enhanced motor repair model, IAG completed the acquisition of the NRMA MotorServe business at the beginning of February 2020. This provides a one-stop-shop for customers, ensuring better outcomes for those getting cars serviced or repaired by reducing time currently spent on multiple trips to have vehicles assessed, quoted and then repaired. Customers also have the option of a hire car or taxi voucher onsite to keep them mobile.

Based on current uptake levels of over 83% for motor and of about 50% for home, there remains scope for increased customer use of IAG's preferred supplier networks.

Further improvement to the overall claims experience is being achieved via the introduction of:

- The pay online platform, allowing customers to pay excesses online via the website or self-service centre;
- A machine learning pilot to assess the likelihood of a vehicle being written off at the time of a claim being lodged; and
- Improved allocation of vehicle inspections by repairers to schedule vehicle assessments with customers within days of a major peril event.

EXPENSES

Improved expense ratio of 23.1%

Australia's reported expenses totalled $665m in 1H20, compared to $676m in 1H19. The decrease includes:

- Further net benefits from optimisation initiatives; and
- Some offset from increased regulatory and compliance costs.

The reported expense ratio was 23.1% (1H19: 23.8%). On an ex-levies basis the administration ratio improved to 11.2% (1H19: 11.9%).

INSURANCE PROFIT

Underlying margin of 16.1%, broadly consistent with 2H19

Australia reported an insurance profit of $349m, compared to $304m in 1H19. This equates to a higher reported insurance margin of 12.1%, compared to the 10.7% recorded in 1H19. This outcome includes the net effect of:

- A significant adverse movement in prior period reserving effects, from 2.9% of NEP in 1H19 to a small net strengthening in 1H20;
- A $47m reduction in net natural peril claim costs, but still well above allowance; and
- A favourable movement in credit spread impacts of over $30m.

Australia's underlying margin of 16.1% was a clear improvement over 1H19 (14.8%) and broadly consistent with 2H19 (16.2%). Contributory elements to the net improvement over 1H19 were:

- Further benefits from the optimisation program, partially offset by increased regulatory costs;
- Further flow-through of average rate increases across commercial portfolios, particularly within packaged products;
- Lower interest rates driving reduced investment income and not fully compensated for in pricing actions;

- Lower large losses within commercial lines; and
- Increased average claim costs in home.

INSURANCE MARGIN IMPACTS Australia	1H19 A$m	2H19 A$m	1H20 A$m
Reserve releases	82	33	(7)
Natural perils	(409)	(203)	(362)
Natural peril allowance	262	263	277
Credit spreads	(24)	18	7
Reserve releases	2.9%	1.2%	(0.2%)
Natural perils	(14.4%)	(7.2%)	(12.6%)
Natural peril allowance	9.2%	9.3%	9.6%
Credit spreads	(0.8%)	0.6%	0.2%

FEE-BASED INCOME

Small fee-based loss from mix of Victorian workers' compensation agency role and new business investments

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

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

Total net income from fee-based operations in 1H20 was a profit of $6m (1H19: $9m). This housed:

- An overall contribution of $8m (1H19: $12m) from the Victorian workers' compensation business. A similar underlying performance was achieved after allowance for $5m of prior period fee income (1H19: $10m), which is typically reported in the opening half of the financial year. The decrease in prior period income was as expected as IAG moves further into its five-year contract and opportunities to generate returns from tail incentive fees and scheme actuarial releases diminish. FY20 is the fourth year of the contract; and
- Costs associated with mobility initiatives, including those arising from the trials of the Safer Journeys crash detection and response service.

The car servicing aspect of the MotorServe acquisition will be included in fee-based income from 2H20 onwards.

MARKET REGULATION AND LEGISLATIVE REFORM

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

The Government has agreed to act on all the recommendations of the **Royal Commission** into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) and, on 19 August 2019, released its implementation roadmap which sets out a timeline for consultation and the introduction of legislation. This is expected to affect the general insurance industry through:

- Extending **unfair contract terms** legislation to insurance contracts;
- **Extending** provisions modelled on the **Banking Executive Accountability Regime** (BEAR) to all APRA-regulated insurers;
- **Removing the exemption for claims handling practices from** the definition of a **'financial service'** in the *Corporations Act*;
- **Prohibiting hawking** of insurance products;
- Considering **whether the exemption to the ban on conflicted remuneration** for general insurance products **remains justified**;

- **Designating as 'enforceable code provisions'** those provisions in the General Insurance Code of Practice that govern **the terms of the contract made between the insurer and the policyholder**;
- **Mandating deferred sales for add-on insurance products** (including add-on insurance sold by car dealerships, which IAG exited in 2017); and
- Amending the *Insurance Contracts Act*, for consumer insurance contracts, to replace the duty of disclosure with a **duty to take reasonable care** not to make a misrepresentation to an insurer.

Actions already in progress on these areas include:

Royal Commission-related legislation already in train in several areas

- The introduction of a Bill on 29 November 2019, which will commence on 5 April 2021, extending **unfair contract terms** to the insurance industry. Legislation to amend the *Insurance Contracts Act 1984* to allow unfair contract terms laws in the *Australian Securities and Investments Commission Act 2001* to apply to insurance contracts was passed in early February 2020;
- Release of Exposure Draft legislation to **bring claims handling into the definition of 'financial service'** and subject to oversight by ASIC. Submissions were due by 10 January 2020;
- In March 2019, release of a Consultation Paper on making the provisions of the **financial services industry codes of conduct more enforceable** and providing both the regulator and consumers with more powers to hold financial services firms to account for misconduct. Exposure Draft legislation will be released in the first half of 2020;
- In December 2019, release for public consultation of a Discussion Paper to further explore and seek views on aspects of a **compensation scheme of last resort**, as recommended by the Royal Commission. Submissions were due 7 February 2020 and further Treasury consultation on Exposure Draft legislation will be undertaken in mid-2020, to establish the scheme by December 2020;
- On 22 January 2020, the Treasury released a Proposals Paper which **extends BEAR to all APRA-regulated entities** through the new Financial Accountability Regime. Submissions are due 14 February 2020; and
- On 31 January 2020, the Government released for consultation draft legislation to implement **22 recommendations and two additional commitments from the Royal Commission**, with submissions due 28 February 2020. Aspects of note for general insurance are:
  - No hawking of financial products;
  - Limiting the use of the terms 'Insurer' and 'Insurance';
  - A deferred sales model for add-on insurance;
  - A cap on vehicle dealer commissions;
  - Duty of reasonable care to not make a misrepresentation to an insurer; and
  - Making insurance claims handling a financial service.

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

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

- In January 2019, the Treasury released a Discussion Paper on **improving disclosure in the general insurance sector** following recommendations made in the Senate Economics References Committee Report into the general insurance industry. Draft legislation is expected to be released in the first half of 2020;

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- The *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018* received Royal Assent on 5 April 2019. This embraces the 2014 Financial System Inquiry's recommendations to introduce **design and distribution obligations** to ensure financial products are targeted at the right people, and a product intervention power for ASIC when there is a risk of significant consumer detriment. There is a two-year transition period for the design and distribution obligations to be met;
- In June 2019, ASIC released a Consultation Paper on the proposed administration of its **new product intervention power**. This allows ASIC to intervene and take temporary action where financial and credit products have resulted in, or are likely to result in, significant consumer detriment. Final regulatory guidance is expected in 2020;
- In December 2019, ASIC initiated consultation on draft guidance for new **financial product design and distribution obligations**. These require financial product firms to develop products that meet the needs of consumers in their intended target market. Submissions are due by 11 March 2020 and a Regulatory Guide will be released in 2020, with obligations effective April 2021;
- The **Productivity Commission** conducted a 12-month **inquiry into competition in Australia's financial system**, with a Final Report released in August 2018 including five recommendations specifically related to general insurance:
  - That comparative pricing information is provided on renewal notices;
  - Increased brand transparency in underwriting;
  - A phasing out of distortionary taxes;
  - A deferred sales model for add-on insurance; and
  - A review of the general insurance *National Consumer Credit Protection Act 2009* exemption.

  The Government is yet to provide a response to this inquiry;
- In May 2017, the Australian Government asked the Australian Competition and Consumer Commission (ACCC) to conduct an Inquiry into the supply of **home, contents and strata insurance in Northern Australia**. With a Final Report due to the Treasurer by 30 November 2020, two Interim Reports have been released. The first, released in December 2018, recommended:
  - Abolishing stamp duty on insurance products;
  - Revising standard cover for insurance products and extending standard definitions;
  - Improving how information is disclosed to consumers; and
  - Prohibiting conflicted remuneration for insurance brokers.

  A second Interim Report was released in December 2019 and made a series of new findings and considered further measures, including government reinsurance pools, government insurers, direct subsidies, mitigation programs and licensing or authorisation conditions. Notwithstanding the ACCC's recommendations, the Federal Government has commenced a **feasibility study into a government-funded cyclone reinsurance pool**. The insurance industry is providing the Government with relevant premium data to assist in the study;
- 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**. Submissions were due by 6 September 2019 and in November 2019 IAG representatives appeared before the Committee. The Committee will report in 2020;

Feasibility study into government-funded cyclone reinsurance pool

4. AUSTRALIA

- In November 2018, IAG appeared before the Senate Education and Employment References Committee **Inquiry into Mental Health Conditions**, which tabled its report in February 2019. With mental health claims presenting a significant challenge to personal injury schemes across the country, the Productivity Commission is also undertaking an Inquiry examining the effect of supporting mental health on economic and social participation, productivity and the Australian economy. A Draft Report was released in October 2019, and submissions were due by 23 January 2020. A Final Report is due 23 May 2020. Also, the Victorian Government established a Royal Commission into Victoria's Mental Health System, releasing an Interim Report in November 2019 and due to produce a Final Report by 31 October 2020;
- In May 2019 ASIC initiated public consultation on **new standards about how financial firms handle consumer and small business complaints**. ASIC aims to release new Internal Dispute Resolution (IDR) standards in February 2020. A separate consultation on the publication of IDR data will commence in the first quarter of 2020;
- The NSW Parliament's Legislative Council's Public Accountability Committee's inquiry into the **regulation of building standards, building quality and building disputes, including limitations on building insurance** released its report in November 2019.The Committee will hold more hearings in early 2020 to gather further evidence for the final report to be tabled in 2020;
- In December 2019 the Building Ministers' Forum met to discuss progress and agree next steps for the suite of important national building reforms underway. It was agreed to convene a meeting in February 2020 with the Insurance Council of Australia (ICA) to discuss measures to reduce **the cost and** improve the **availability of professional indemnity insurance premiums for building industry** practitioners;
- In December 2019, ASIC announced the implementation of a **ban on unsolicited 'cold call' telephone sales** of direct life insurance and consumer credit insurance. The ban addresses poor sales practices that have led to unfair consumer outcomes and took effect from 13 January 2020;
- In December 2019, the Parliamentary Standing Committee on the Environment and Energy announced an Inquiry into the efficacy of past and current **vegetation and land management policy**, practice and legislation and their **effect on the intensity and frequency of bushfires** and subsequent risk to property, life and the environment. Submissions are due by 31 March 2020;
- In September 2019, the Senate Committee Inquiry into **Financial Technology and Regulatory Technology** in Australia was announced, with submissions due by 31 December 2019. The Committee is to present its final report on or before the first parliamentary sitting day in October 2020;
- In August 2019, the Australian Parliamentary Joint Select Committee on Road Safety announced it will inquire and report on steps that can be taken to reduce **Australia's road accident rates**, trauma and deaths. Submissions were due by 31 January 2020. The Committee is to present an Interim Report on or before 31 July 2020 and its Final Report on or before 31 October 2020;
- Insurers are implementing a **new General Insurance Code of Practice**. ICA members and other Code participants started to transition to it from 1 January 2020, with all Code signatories to be compliant by 1 January 2021. All Code signatories will also be required to introduce and implement a publicly available policy to support customers affected by family violence by 1 July 2020;

4. AUSTRALIA

- In August 2019, the **House of Representatives' Standing Committee on Economics' Inquiry** into the banks was **extended to include the broader financial services industry**. Insurance CEOs are expected to appear before the Economics Committee in late April 2020; and
- On 23 January 2020, the Treasurer announced an **Inquiry into Future Directions for the Consumer Data Right**. The Inquiry commenced in January 2020 and will report to the Treasurer in late 2020. An Issues Paper will be made available in early 2020.

OUTLOOK

Growth in the Australian general insurance market continues to remain subdued, against a backdrop of sluggish wage growth, weak consumer confidence, deteriorating new car sales and soft housing activity.

Competition for the limited growth opportunities in core portfolios has brought new entrants, bundled product offerings, more applications of artificial intelligence, investment in technology in distribution channels and partnerships to capitalise on the shared economy.

GWP trends in 2H20 are expected to follow a similar pattern to those of 1H20 and result in modest overall growth. Supporting features are expected to be:

- Short tail personal line rate increases responding to claims inflation, supplemented by modest volume growth;
- Further reduction in CTP GWP, largely price-driven, including lower premiums post-ACT scheme reform;
- Additional drag from exited activities in underwriting agencies; and
- Relatively flat like-for-like GWP from commercial lines, as rate increases are offset by further reduction in volumes.

Underlying profitability is expected to remain relatively strong and be broadly maintained at 1H20 levels. Benefits from the realisation of further cost-out will again be partially offset by higher regulatory and compliance costs.

In personal lines, 2H20 short tail underlying profitability is expected to be similar to 1H20. CTP profitability is not expected to significantly change, with NSW scheme profitability capped since the end of calendar 2017.

In commercial lines, some pressure on agricultural portfolio profitability is anticipated, as achievable rate increases are unlikely to meet claims inflation. Elsewhere, commercial margins are expected to continue to benefit from disciplined underwriting and rate increases.

Australia's reported profitability in 2H20 will include net natural peril claim costs from the major hailstorm event which impacted parts of Melbourne, Canberra and Sydney in mid-January, as well as the heavy rain event in early February 2020. The net costs of these events are expected to be capped at $169m and $135m respectively, in line with IAG's first and second event MERs under its calendar 2020 catastrophe reinsurance protection.

Reported profitability in 2H20 is also expected to see prior period reserve releases revert to a run rate close to 1% of net earned premium, in contrast to the net strengthening experienced in 1H20.

2H20 expect to show modest GWP growth and similar underlying profitability to 1H20

5. NEW ZEALAND

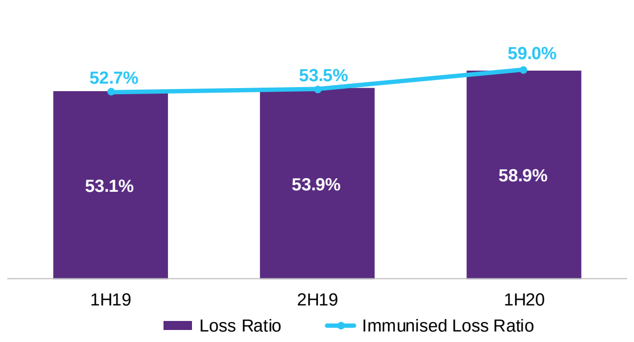
FINANCIAL PERFORMANCE

NEW ZEALAND	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**1,268**	**1,392**	**1,348**
Gross earned premium	1,277	1,327	1,357
Reinsurance expense	(503)	(520)	(533)
Net earned premium	**774**	**807**	**824**
Net claims expense	(411)	(435)	(485)
Commission expense	(81)	(98)	(90)
Underwriting expense	(98)	(104)	(99)
Underwriting profit	**184**	**170**	**150**
Investment income on technical reserves	9	27	6
Insurance profit	**193**	**197**	**156**

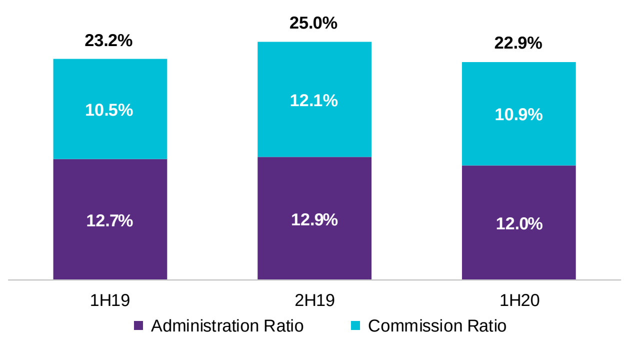
Insurance Ratios	1H19	2H19	1H20
Loss ratio	53.1%	53.9%	58.9%
Immunised loss ratio	52.7%	53.5%	59.0%
Expense ratio	23.2%	25.0%	22.9%
Commission ratio	10.5%	12.1%	10.9%
Administration ratio	12.7%	12.9%	12.0%
Combined ratio	76.3%	78.9%	81.8%
Immunised combined ratio	75.9%	78.5%	81.9%
Reported insurance margin	24.9%	24.4%	18.9%
Underlying insurance margin	20.0%	18.9%	18.9%

INSURANCE RATIOS

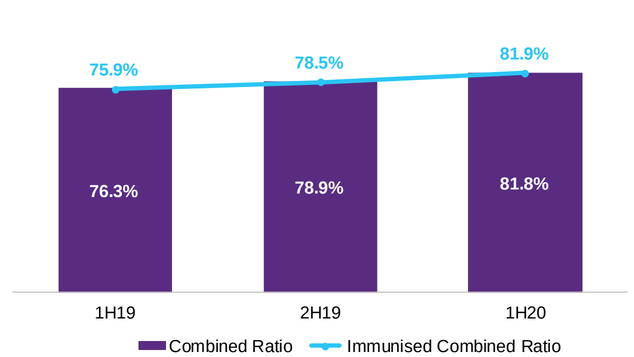
LOSS RATIO



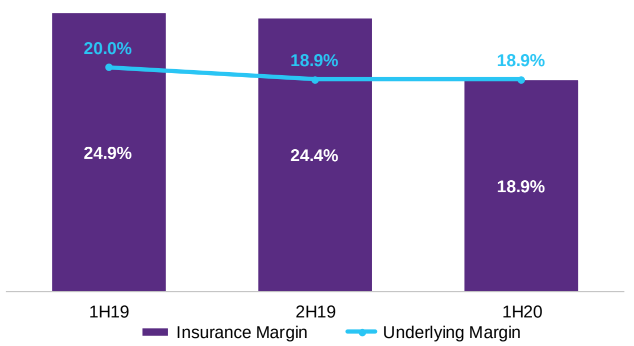
EXPENSE RATIOS



COMBINED RATIO



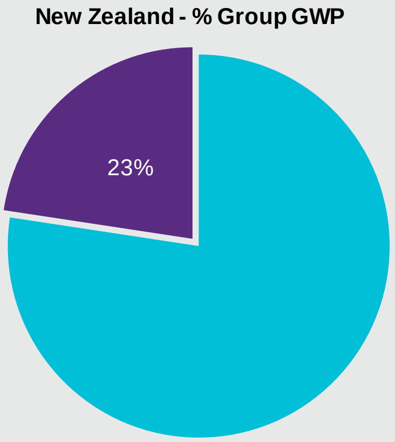
INSURANCE MARGIN



5. NEW ZEALAND

EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley brands
- Local currency GWP growth of 4.2% (reported GWP growth of 6.3% after favourable translation effect)
- Solid personal and commercial line rate increases, combined with volume growth in private and commercial motor
- Strong underlying operating performance maintained – underlying margin of 18.9%
- Lower reported margin following large hailstorm event in November 2019
- Solid performance expected over the balance of FY20, with further GWP growth and an underlying margin similar to 1H20



PREMIUMS

New Zealand's local currency GWP grew by 4.2% in 1H20, to NZ$1,428m (1H19: NZ$1,371m). This outcome spanned:

- Strong GWP growth from Business, driven by increased rates across main commercial lines combined with volume growth in commercial motor; and
- Sound GWP growth in Consumer, led by private motor through a combination of increased rates and volume growth.

Overall local currency GWP growth was trimmed by approximately 50bps by changes introduced by the Earthquake Commission (EQC). These saw the EQC cease offering contents cover (previously up to NZ$20,000) and increase its residential property cover from NZ$100,000 to NZ$150,000, from 1 July 2019.

In reported terms, New Zealand recorded GWP growth of 6.3%, to $1,348m, following a favourable foreign exchange translation effect.

Business represented 43% of New Zealand's GWP in 1H20 (1H19: 41%), with local currency GWP growth of 8.1%. Strong GWP growth was experienced across all main commercial line portfolios, driven by higher premium rates, increased retention rates and strong new business performance in the commercial motor and liability portfolios.

Business' personal lines experienced a small reduction in GWP compared with 1H19. This reflected volume loss as the division continues to exercise disciplined underwriting and appropriately price for risk.

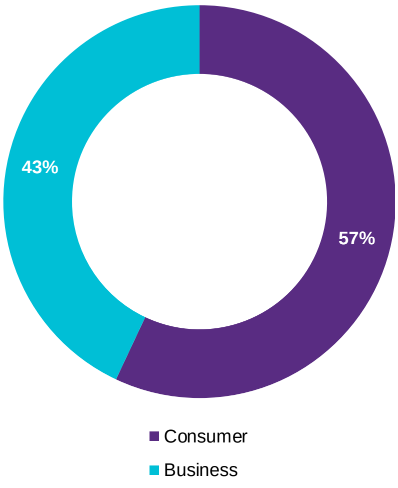
Consumer represented 57% of New Zealand's GWP in 1H20 (1H19: 59%) and achieved GWP growth of 1.3% (underlying growth of 2.3% after normalising for the EQC changes) in local currency terms, compared to 1H19. Growth in Consumer continued to be led by the AMI brand, primarily through rate and volume increases in the private motor portfolio.

Overall personal line retention rates in Consumer's direct brands (AMI and State) were slightly up on 1H19. New business growth across State's personal lines improved on 1H19 levels, with AMI new business home growth up on 1H19 experience.

Personal lines products written through the bank partners distribution channel achieved sound GWP growth, predominantly driven by higher rates, with volumes slightly down on the same period last year. Retention rates across the bank partners were largely in line with 1H19 levels, however new business volumes were down.

Local currency GWP growth of 4.2%

NEW ZEALAND 1H20 GWP - DIVISION



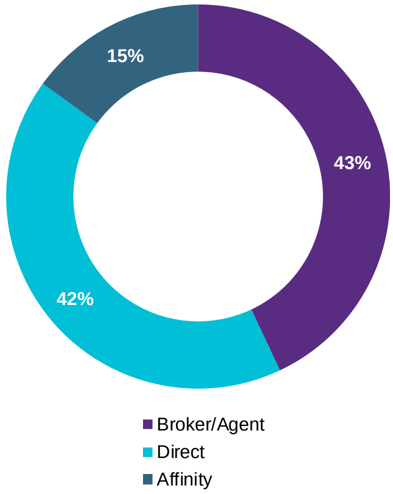
5. NEW ZEALAND

Consumer's direct commercial lines book maintained strong momentum, achieving local currency GWP growth of 5.3% in 1H20. The commercial motor portfolio continued to outperform, delivering strong volume growth combined with modest rate increases.

The online proposition for direct brands was extended to cover quote, buy and lodgement of claim functions, further enhancing the provision of choice to customers on how they interact with IAG. Nearly 25% of all direct new business sales are now through digital channels and almost 30% of all new direct private motor vehicle policies are now sold online. In October 2019, online claims functionality was implemented for the State and AMI brands, allowing customers to lodge and check claims status online.

In November 2019, AMI was awarded the Gold Quality Service Award for Home and Contents Insurance at the 2020 Reader's Digest Quality Service Awards. This is the second consecutive year AMI has won the award, demonstrating its commitment to providing world-leading customer experiences. In addition, AMI was awarded the Silver Award for Car Insurance and Roadside Assistance. These awards are based on customer votes and recognise companies which have gone above and beyond their customers' expectations.

NEW ZEALAND 1H20 GWP - CHANNEL



REINSURANCE EXPENSE

New Zealand's reinsurance expense was $533m, compared to $503m in 1H19. The underlying reinsurance expense (ex-quota shares) was slightly higher than 1H19, reflecting the combination of:

- Overall aggregate growth;
- Changes to gross cover; and
- Broadly similar catastrophe reinsurance rates.

Slightly higher underlying reinsurance expense, reflecting aggregate growth

CLAIMS

New Zealand incurred a significantly higher reported loss ratio of 58.9% in 1H20 (1H19: 53.1%), featuring:

- A substantial increase in net natural peril claim costs, to $57m (1H19: $5m);
- Some offset from higher reserve releases of $14m (1H19: $1m);
- Higher personal lines working claims experience, particularly in private motor; and
- An increase in large claims experience compared with 1H19.

Significantly higher loss ratio driven by adverse perils experience

After a period of unusually benign natural peril activity across FY19, the incidence of such events showed a significant step up in 1H20 with overall net natural peril claim costs exceeding allowance by $14m.

Central to this was a significant hailstorm which occurred on 20 November 2019 in the Canterbury region of the South Island and resulted in a net claim cost of $36m. The storm caused significant damage to motor vehicles in the area, with over half of the claim cost attributable to private motor. The balance related to the home and commercial motor portfolios.

NATURAL PERILS New Zealand	1H19 A$m	2H19 A$m	1H20 A$m
Net natural peril claim costs	(5)	(10)	(57)
Natural peril allowance	42	41	43
Impact on insurance margin	**37**	**31**	**(14)**
Impact on insurance margin	**4.8%**	**3.9%**	**(1.7%)**

5. NEW ZEALAND

Prior period reserve releases of $14m were recognised in 1H20, compared to a negligible level in 1H19. The 1H20 net reserve releases were predominantly sourced from professional indemnity exposures to residual post-Canterbury earthquake risks.

Higher prior period reserve releases of $14m

RESERVE RELEASES New Zealand	1H19 A$m	2H19 A$m	1H20 A$m
Reserve releases	1	13	14
Impact on insurance margin	**0.1%**	**1.6%**	**1.7%**

Large claim (greater than NZ$100,000) experience in 1H20 was above both the same period last year and expectations. The increase on 1H19 was driven by adverse experience in the home owner and commercial property portfolios.

Working claim experience was also above expectations and 1H19 experience, with the variance predominantly in the private motor portfolio. While claim frequency was up on prior period experience it was in line with expectations. A higher than anticipated average claim cost in private motor was driven by a combination of factors, including higher-cost enhanced technology in motor vehicles and increased labour costs. The New Zealand business is focused on action plans to address these trends, including targeted pricing reviews.

In November 2019, the New Zealand business opened a custom-built vehicle repair facility, Repairhub. This has been set up as a trial site to provide an improved customer experience, speeding up the time it takes to repair cars and get customers back on the road. Repairhub will trial innovative technologies and streamline processes which help combat rising repair costs. The New Zealand Repairhub business is wholly-owned by IAG.

Repairhub trial to improve customer experience and combat rising repair costs

CANTERBURY EARTHQUAKE SETTLEMENTS

Sound progress continues to be made with the settlement of claims associated with the FY11 Canterbury earthquake events. At 31 December 2019 over NZ$6.9bn of claim settlements had been completed, with 925 claims remaining open out of more than 90,000 received.

No change to reserved position for FY11 Canterbury earthquake events

During 1H20 there was no change to IAG's gross reserved position on the three major earthquakes which occurred in FY11, with considerable legacy reinsurance protection available for the September 2010 and June 2011 events, and approximately NZ$540m of adverse development cover available for the February 2011 event.

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

EXPENSES

New Zealand's reported expenses totalled $189m in 1H20, compared to $179m in 1H19. Business growth and foreign exchange translation effects account for much of the reported increase, as ongoing disciplined cost management and net optimisation benefits have countered higher regulatory and compliance costs.

Optimisation benefits countering increased regulatory costs

The 1H20 administration ratio improved to 12.0% (1H19: 12.7%), while the commission ratio of 10.9% was slightly higher than the same period last year (10.5%) and reflected business mix changes.

5. NEW ZEALAND

INSURANCE PROFIT

Strong underlying performance maintained

The New Zealand business produced an insurance profit of $156m in 1H20, compared to $193m in 1H19. This translates to a lower reported insurance margin of 18.9% (1H19: 24.9%) with the reduction embracing the mix of:

- Strong growth in net earned premium, driven by cumulative GWP advances in both Consumer and Business;
- Higher prior period reserve releases;
- Significantly higher net natural peril claim costs, centred on the Canterbury hailstorm; and
- Higher large claims experience and working claim costs.

INSURANCE MARGIN IMPACTS New Zealand	1H19 A$m	2H19 A$m	1H20 A$m
Reserve releases	1	13	14
Natural perils	(5)	(10)	(57)
Natural peril allowance	42	41	43
Reserve releases	0.1%	1.6%	1.7%
Natural perils	(0.6%)	(1.2%)	(6.9%)
Natural peril allowance	5.4%	5.1%	5.2%

The New Zealand business continues to generate a strong underlying performance. A lower 1H20 underlying margin of 18.9% (1H19: 20.0%) largely reflected higher working and large claim experience, and was consistent with the performance in 2H19.

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

MARKET REGULATION AND REFORM

New conduct obligations for insurers

The Minister of Commerce and Consumer Affairs announced **new conduct obligations for banks and insurers**. The announcement follows a period of public consultation on options to improve the conduct of financial institutions, prompted by the findings of the Reserve Bank of New Zealand (RBNZ) / Financial Markets Authority (FMA) review of conduct and culture within banks and life insurers and the Royal Commission in Australia. The reforms include:

- A conduct-licensing regime for banks, insurers and non-bank deposit takers;
- A requirement that licensed 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 on 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.

Legislation to establish the conduct regime was introduced to Parliament in December 2019.

The Government has announced policy decisions on its work to modernise and consolidate a range of existing insurance law into **a single Insurance Contracts Act**, including:

- Placing the responsibility on insurers to ask consumers the right questions when processing new insurance policies;
- Requiring insurance policies to be written and presented clearly;

5. NEW ZEALAND

- Ensuring insurers respond proportionately when consumers do not disclose something they should have or misrepresent themselves;
- Strengthening protections for consumers against unfair terms in insurance contracts; and
- Extending powers to the FMA to monitor and enforce compliance with new requirements.

The Ministry of Business, Innovation and Employment (MBIE) will be consulting on draft legislation in 2020.

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

The inquiry is investigating the EQC's operational practices during the Canterbury earthquakes. The scope includes the impacts on customers, the interplay between the EQC and insurers and the impacts of operational changes applied to later events. Issues relating to insurance contract law, other insurers and reinsurers are excluded from the inquiry. The findings will inform further reform of the Earthquake Commission Act which the Treasury will pick up from mid-2020.

The RBNZ has advised the industry that it expects to restart its **review of the Insurance (Prudential Supervision) Act** in 2020. The priority areas for consultation will be escalating supervisory responses, the solvency framework and the role of the Appointed Actuary (subject to a separate thematic review). The RBNZ has stressed that the review is likely to run for several years.

RBNZ prudential review to restart in 2020 – expected to run for several years

A thematic review of the role of the Appointed Actuary across the industry was carried out by the RBNZ in September and October 2019. An industry-wide report stating its findings is due to be released in the first quarter of 2020, with individual insurers receiving detailed responses.

MBIE and the Ministry for the Environment have released a consultation paper on the creation of a **climate risk disclosure regime** for listed companies and regulated entities such as banks and general insurers. It is proposed that the regime be based on the Taskforce for Climate-related Financial Disclosures and be on a 'comply-or-explain' basis.

OUTLOOK

The New Zealand insurance market continues to be dynamic and highly competitive.

Solid GWP growth is expected in Business for the remainder of FY20, driven by a combination of item growth and moderate rate increases. Sound growth is expected in Consumer, albeit at lower levels than experienced in FY19, driven by a mix of volume growth and inflationary rate increases.

Solid GWP growth and strong underlying profitability expected for balance of FY20

The New Zealand business' strategic priorities continue to be:

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

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

6. CUSTOMER, INNOVATION & DIGITAL

From 24 February 2020, IAG has established a **Strategy & Innovation** division, combining its existing strategy function with Customer Labs. This new division will be responsible for enhancing the customer experience using data and insights, as well as digital, innovation, new business incubation and venturing.

Alongside this, an expanded **Technology & Digital** division brings together IAG's digital teams from Australia and New Zealand, including those previously part of Customer Labs, with the existing Group Technology team.

These operating model changes are a logical step for IAG as it transitions to the next phase of its strategy, with a greater emphasis on future growth for its core insurance business as well as adjacent business opportunities.

CUSTOMER EXPERIENCE

Range of initiatives to improve customer understanding and outcomes

To support the roll out of IAG's **Customer Equity Framework**, educational initiatives were delivered in 1H20 to improve awareness and understanding of customer equity. These included highlighting vulnerable customer situations and consequent needs, as well as understanding customer impacts so better solutions can be designed. Strategy & Innovation will support the business divisions in Australia and New Zealand in further developing the Customer Equity Framework, including satisfying the standards of the revised General Insurance Code of Practice.

The **Customer Connections program** continued throughout 1H20 with visits to customer contact centres to help provide staff with a greater understanding of customer and business needs or insights. This program entails the listening in to live calls and interactions conducted by customer-facing areas of the business, and has involved Board members, senior executives and broader employee levels.

DATA

Drawing on data to provide deeper customer insights

Data provides IAG with insights into customer needs and expectations through the assets they insure and the way in which they interact with IAG's brands. Over a number of years, IAG has simplified the availability of data from numerous systems into a **single data platform**. The types of data include insured assets, policies held, claims made, marketing communications received, contact activity and customer satisfaction feedback.

Easy access to all customer data allows IAG to apply analytics to provide **deeper insights into customers**' expectations and experiences when engaging with IAG. This data is used to improve the way IAG engages with customers through greater personalisation, pre-empting customer needs and developing new products and services.

In an increasingly data-driven environment, **privacy and data governance** are critical components of IAG's data strategy. IAG's focus is on embedding privacy practices and data governance into processes and ensuring a culture aligned to IAG's purpose.

ANALYTICS & ARTIFICIAL INTELLIGENCE (AI)

Several analytics and AI initiatives launched in 1H20

The enhanced view of customers developed by the data team has enabled the analytics and AI team to advance a range of initiatives during 1H20:

- Application of IAG's **technical pricing capabilities** to the majority of portfolios, using machine learning and increased granularity in the risk selection process;
- Research on **scientific measurement and monitoring of pricing strategies**; and
- Improving modelling for **customer lifetime valuation** and to understand and predict customer buying behaviour and satisfaction.

6. CUSTOMER, INNOVATION & DIGITAL

Strategy & Innovation actively considers the **ethical aspects of AI use**. This has been supported by the Gradient Institute, a partnership between IAG, the Commonwealth Scientific and Industrial Research Organisation's Data61 and the University of Sydney. A Canberra chapter was opened recently in association with the Australian National University. IAG's analytics team has undertaken training by the Gradient Institute.

DIGITAL

Technology & Digital will continue to **drive digitisation across IAG** to eliminate pain points for customers to enable an effortless experience that anticipates customer needs.

Ongoing digitisation is improving customer experiences and allowing IAG to compete at scale

Significant progress was made during 1H20 in **digitising the end-to-end customer experience**. Enhancements have been made to a number of customer touchpoints. In particular, the claims customer journey across IAG's Australian and New Zealand brands is now providing a consistent and more efficient experience for home and motor claims.

Utilisation of cloud services has accelerated to allow IAG to compete at scale in the digital world. IAG's Cloud Academy supports capability build and has formally trained 300 employees and provided learning events for more than 800 so far.

INNOVATION & VENTURING

At IAG, innovation entails learning, experimentation and partnering to rapidly design, test and prototype new products and services. During 1H20, IAG continued to focus efforts on accelerated deployment and scaling of new ventures.

Accelerated deployment and scaling of new ventures

Between **ShareCover** and **Insurance4That**, over 10,000 new customers have been attracted to IAG over the last 12 months, with both products continuing to record steady growth.

The investment in **Carbar**, a digital car-trading and subscription platform, is demonstrating strong early progress. Carbar caters to the growing customer appetite for alternative forms of vehicle ownership and provides an opportunity for IAG to design complementary forms of insurance, as well as optimise its supply chain and claims management processes. Carbar is also focused on growing its vehicle subscription model.

In December 2019, Firemark Labs launched **Safer Journeys**, a crash detection and emergency response service available via NRMA Insurance which automatically detects when customers have been in an incident and engages the relevant support services. It also allows customers to collect the relevant information required to instantly lodge a claim at the scene of an incident. This new venture will be scaled during the remainder of FY20.

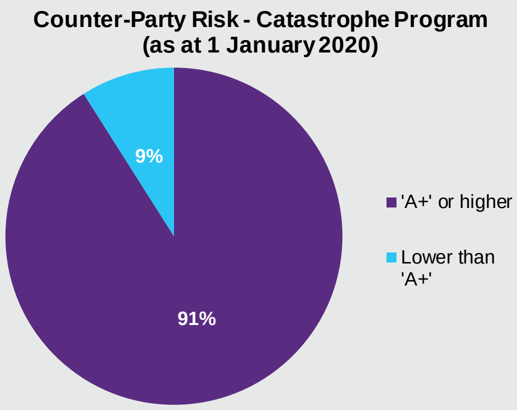
Firemark Ventures has invested ~$24m across 16 companies and made a number of investments in 1H20, including:

- **Digital Agriculture Services**, a business-to-business technology company providing rural data and analytical services that facilitate the management of agricultural investment and commerce. This can assist IAG to better understand the risks associated with rural properties;
- **Bluedot Innovations**, a software-as-a-service location data enablement platform, which provides IAG with an opportunity to experiment with and identify new products and services of value to customers; and
- **Quantiful**, a machine learning platform that provides insights into supply chain management to enable better understanding and forecasting of market trends. Quantiful is a natural partner for Ambiata, providing complementary services and having a similar target customer base.

7. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of IAG's overall approach to capital management
- Catastrophe program renewed 1 January 2020 with similar structure to prior years
- Calendar 2020 gross catastrophe cover increased to $10bn – additional protection above modelled exposure
- Catastrophe cover placed to 67.5% to reflect quota share agreements
- Post-quota share group maximum event retention (MER) of $169m at 1 January 2020
- MER now ~$50m post hailstorm (January) and heavy rain (February) events
- Additional FY20 perils (stop-loss) cover of $101m in excess of $675m (post-quota share)



REINSURANCE STRATEGY

IAG's reinsurance program is an important part of its approach to capital management. IAG has a philosophy of limiting its main catastrophe retention to a maximum of 4% of gross earned premium. Current retentions are below this level.

IAG determines its reinsurance requirements for Australia and New Zealand on a modified whole-of-portfolio basis (where modified whole-of-portfolio is the sum of all correlated risk). The limits purchased at 1 January 2020 continue to reflect IAG's conservative approach to catastrophe protection. IAG procures limits greater than the Australian regulator's 1-in-200-year return period requirement, and also above the 1-in-1,000-year return period requirement for New Zealand. The higher limits compensate for possible deficiencies in current catastrophe models.

IAG's Australia-based reinsurance unit manages 100% of the total reinsurance spend of the Australian business. A key responsibility of this unit is to capture and manage counter-party and regulatory exposures.

IAG's Singapore captive continues to provide reinsurance protection for New Zealand exposures, as well as those related to IAG's joint venture interest in Malaysia.

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

MARKET ENVIRONMENT

Although peril losses – both locally and globally – were significant during calendar 2019, the impact on property reinsurance pricing was as anticipated. While there has been upwards pressure on reinsurance rates in some territories which experienced significant catastrophe losses, reinsurance capital levels have remained high. Hardening of premium rates is expected to occur during calendar 2020 following recent large catastrophic events in Australia. Expectations are that market terms and conditions across catastrophe aggregate reinsurance will be more challenging with reduced capacity, increased pricing and higher deductibles.

Relatively stable reinsurance rates experienced at 2020 catastrophe renewal

WHOLE-OF-ACCOUNT QUOTA SHARE

IAG employs reinsurance capital via quota shares, with 32.5% of IAG's consolidated business subject to these arrangements on a whole-of-account basis. This comprises:

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

32.5% of consolidated business remains subject to quota share

7. REINSURANCE

- Three agreements for a combined 12.5% from 1 January 2018, with Munich Re, Swiss Re and Hannover Re. The average initial term of these agreements at inception was in excess of five years.

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 and reduced exposure to volatility in associated premium rates; and
- A reduction in IAG's regulatory capital needs.

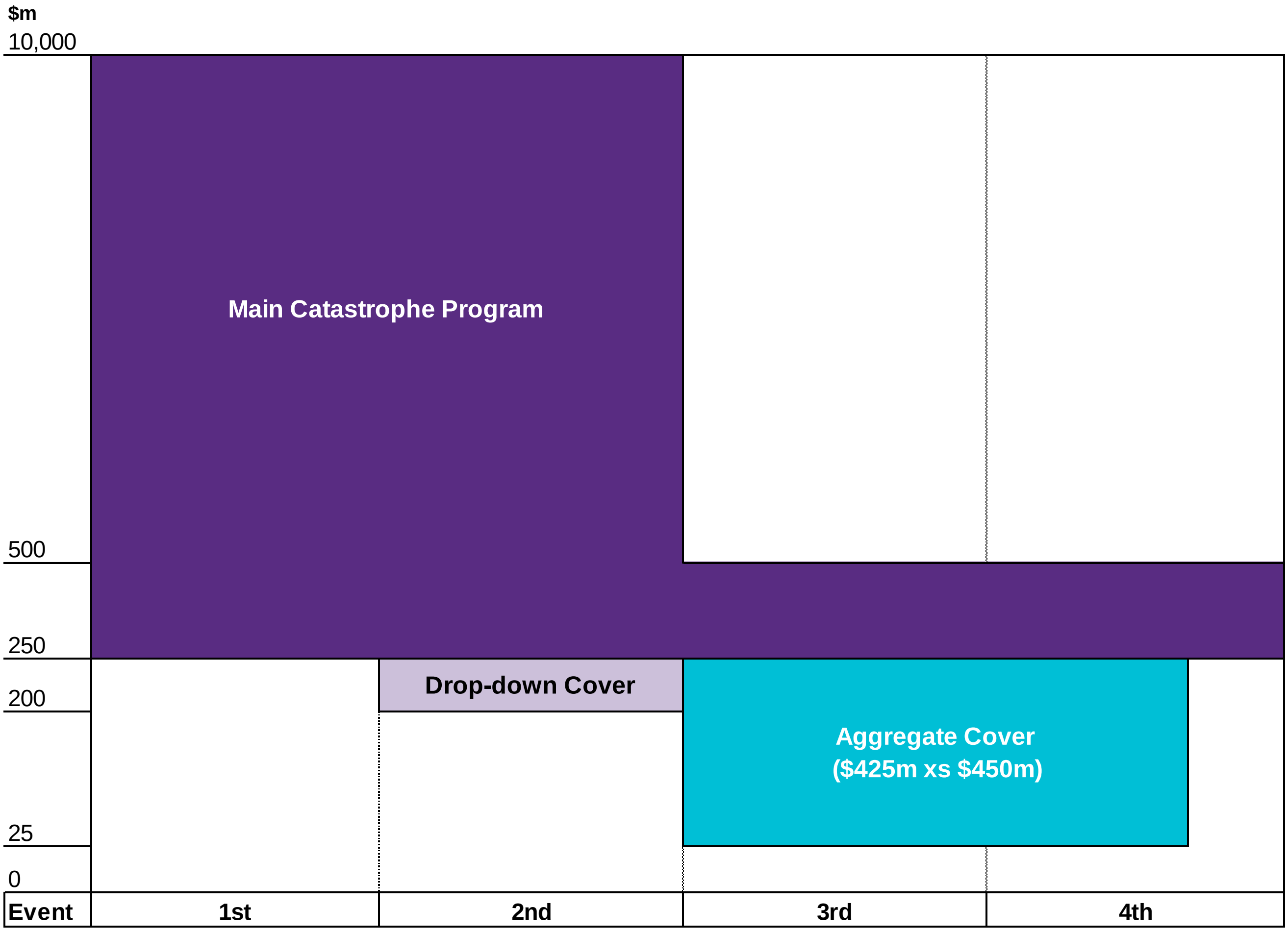
CATASTROPHE COVER

The majority of IAG's catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IAG operates, with the exception of its joint venture interest in India which has its own reinsurance arrangements.

IAG's 2020 catastrophe reinsurance program has been constructed in a similar manner to prior years. Increased gross reinsurance cover of $10bn (2019: $9bn) provides additional protection above modelled exposure and is placed to the extent of 67.5%, after allowance for quota shares. Compared to calendar 2019, underlying aggregate exposure is expected to show a modest increase in Australia and growth of approximately 5% in New Zealand.

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

GROSS CATASTROPHE REINSURANCE – AS AT 1 JANUARY 2020



7. REINSURANCE

At renewal on 1 January 2020 the integrated catastrophe program housed the following main features at a gross (pre-quota share) level:

- A main cover for losses up to $10bn, including one prepaid reinstatement;
- IAG retaining the first $250m of each loss;
- A second event drop-down cover reducing the cost of such an event to $200m;
- Three prepaid reinstatements secured for the lower layer of the main program; and
- An aggregate sideways cover that provides protection of $425m excess of $450m, with qualifying events capped at a maximum contribution of $225m excess of $25m per event.

After allowance for the cumulative quota share arrangements in place, the combination of all catastrophe covers resulted in IAG having the following maximum event retentions (MERs) at 1 January 2020:

- First event of $169m for Australia (NZ$169m for New Zealand);
- Second event of $135m (NZ$135m); and
- Third event of $17m (NZ$17m).

CALENDAR 2020 CATASTROPHE REINSURANCE PROGRAM		
Cover	**Gross**	**Net of quota share (67.5%)**
Main cover	$9.75bn xs $250m	$6.58bn xs $169m
Aggregate cover	$425m xs $450m	$287m xs $304m
Aggregate cover qualifying events	$225m xs $25m	$152m xs $17m
Retentions	**Gross**	**Net of quota share (67.5%)**
First event	$250m	$169m
Second event	$200m	$135m
Subsequent event	$25m	$17m

The cost of the mid-January hailstorm and early February heavy rain events in Australia were capped at $169m and $135m respectively, in line with IAG's first and second event retentions (post-quota share) under its calendar 2020 cover. At 12 February 2020, IAG's MER stood at approximately $50m (post-quota share), following erosion of the 2020 aggregate cover deductible.

In addition to its calendar-based catastrophe cover, IAG has a reinsurance cover for retained natural perils which runs in line with the financial year (stop-loss cover) and provides post-quota share protection of $101m in excess of $675m for the 12 months to 30 June 2020.

CTP QUOTA SHARE

IAG has a quota share agreement with Munich Re in respect of 30% of its combined CTP book for a minimum four-year period from 1 July 2016, with an option for a further two years. The agreement covers all CTP written in NSW, the ACT and South Australia. The CTP quota share runs in conjunction with the whole-of-account agreements, meaning 62.5% of IAG's CTP book is subject to quota share.

MER of ~$50m at 12 February 2020, following hailstorm and heavy rain events

FY20 cover includes stop-loss protection of $101m, excess of $675m (post-quota share)

7. REINSURANCE

RUN-OFF PORTFOLIO PROTECTION

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

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

Run-off portfolio protections completed in FY16

OTHER COVERS

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

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

COUNTER-PARTY RISK

The counter-party credit profiles for IAG's key reinsurances as at 1 January 2020 are:

- Around 91% of limits placed with 'A+' or higher rated entities for the calendar 2020 property catastrophe program; and
- 100% of limits placed with 'A+' or higher rated entities for the casualty program.

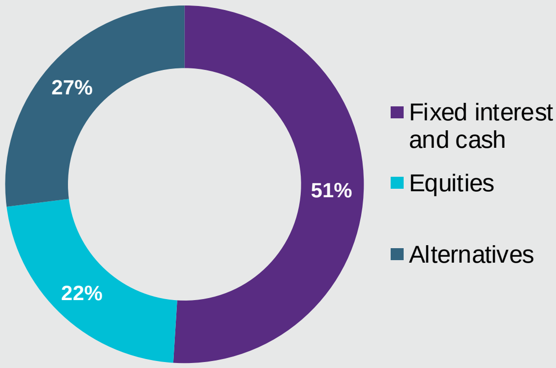
Strong counter-party risk profile maintained

8. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $10bn as at 31 December 2019
- Overall investment allocation remains conservatively positioned
- Technical reserves of $6bn invested in fixed interest and cash
- Shareholders' funds of $4bn – defensive asset weighting of 51% at 31 December 2019
- Solid investment return on technical reserves
- Significant improvement in shareholders' funds income (vs. 1H19) owing to relative strength in equity markets
- Strong credit quality maintained: 78% 'AA' or higher

Shareholders' Funds Mix – 31 December 2019



INVESTMENT PHILOSOPHY

IAG's investment philosophy is to:

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

Technical reserves invested to align with liability interest rate risk

INVESTMENT STRATEGIES

IAG's overall investment allocation is conservatively positioned, with over 80% of total investments in fixed interest and cash as at 31 December 2019. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 51%.

IAG's allocation to growth assets (equities and alternatives) was 49% of shareholders' funds at 31 December 2019, compared to 42% at 30 June 2019.

Distinct investment strategies for technical reserves and shareholders' funds

INVESTMENT ASSETS

IAG's investments totalled $10.0bn as at 31 December 2019, excluding investments held in joint ventures and associates, with 60% represented by the technical reserves portfolio. The decrease in total investments since 30 June 2019 centres on the shareholders' funds portfolio, which has borne the net effect of:

- Payment of the final dividend of $462m in September 2019;
- Redemption of the $550m Reset Exchangeable Securities (RES) issue in December 2019; and
- Net earnings during the period.

Total investments reduced to $10.0bn, largely reflecting redemption of $550m RES

INVESTMENT ASSETS	1H19 A$bn	FY19 A$bn	1H20 A$bn
Technical reserves	6.1	6.0	6.0
Shareholders' funds	4.5	4.7	4.0
Total investment assets	**10.6**	**10.7**	**10.0**

8. INVESTMENTS

ASSET ALLOCATION

Since 30 June 2019, the main movement in asset mix has been an increased weighting in growth assets within shareholders' funds. This essentially reflects the $550m redemption of the RES in December 2019, with funds held in fixed interest and cash up until that time specifically for that purpose.

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

IAG's investment processes for its equity portfolio exclude or restrict exposure to high risk companies with poor climate change risk management and support investment in those companies that are reducing their carbon risk or investing in renewables. At 31 December 2019, 0.08% of IAG's total investment portfolio (or ~$8m) was invested in high risk companies (FY19: 0.13%).

Over 80% of investments in fixed interest and cash

Minor equity investment exposure to high risk companies

ASSET ALLOCATION

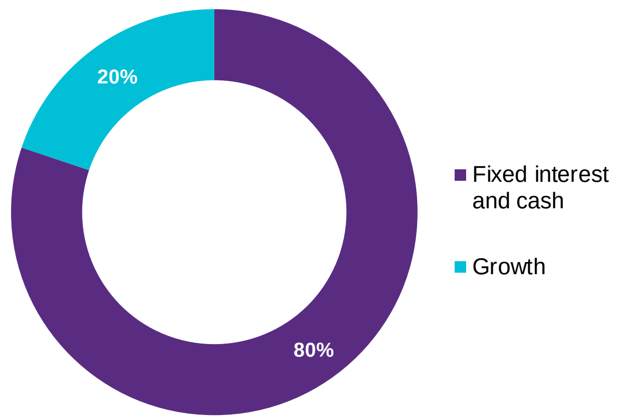
	1H19	FY19	1H20
SHAREHOLDERS' FUNDS	**%**	**%**	**%**
Australian equities	8.8	6.1	7.0
International equities	14.6	13.4	15.6
Alternatives	24.3	22.6	26.6
Fixed interest and cash	52.3	57.9	50.8
Total	**100.0**	**100.0**	**100.0**
TECHNICAL RESERVES	**%**	**%**	**%**
Fixed interest and cash	100.0	100.0	100.0
Total	**100.0**	**100.0**	**100.0**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	**%**	**%**	**%**
Australian equities	3.7	2.7	2.8
International equities	6.2	5.9	6.3
Alternatives	10.3	10.0	10.7
Fixed interest and cash	79.8	81.4	80.2
Total	**100.0**	**100.0**	**100.0**

CREDIT QUALITY OF ASSETS

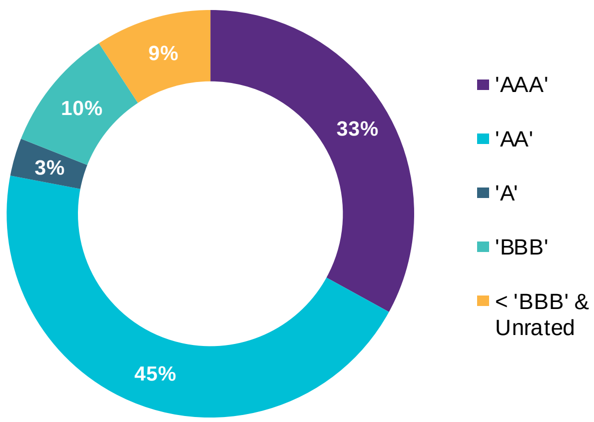
The credit quality of IAG's investment book remains strong, with 78% of the fixed interest and cash portfolio rated 'AA' or higher.

Strong credit quality maintained

ASSET ALLOCATION – 31 DECEMBER 2019



CREDIT QUALITY – 31 DECEMBER 2019



8. INVESTMENTS

SENSITIVITY ANALYSIS

As at 31 December 2019, the sensitivity of IAG's net profit before tax to market movements in investments was as set out in the table below and includes sensitivities relating to alternative assets. The allocation to alternative assets typically exhibits a lower sensitivity to equity markets and higher exposure to yield-based strategies.

INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 31 DECEMBER 2019	Change in Assumption +1% A$m	-1% A$m
Equity market values:		
Australian equities	3	(3)
International equities	6	(6)
Total equity market sensitivity	**9**	**(9)**
Interest rates:		
Assets backing technical provisions	(108)	113
Assets backing shareholders' funds	(32)	34
Total interest rate sensitivity	**(140)**	**147**

INVESTMENT PERFORMANCE

A solid investment return was achieved on the technical reserves portfolio in 1H20, with related investment income of $81m (1H19: $102m) influenced by:

- Slightly lower average investment assets of approximately $5.9bn;
- A minor movement in the yield curve since 30 June 2019, resulting in a negligible unrealised capital gain at 31 December 2019, compared to an unrealised gain of nearly $130m at 30 June 2019; and
- A positive impact of $7m from the narrowing of credit spreads, compared to a negative effect of $24m from the widening of spreads in 1H19.

After allowance for the factors outlined above, the average yield achieved in 1H20 was lower than that of 1H19.

The technical reserves portfolio continues to be aligned with the average weighted duration of IAG's claims liability, which is around two years.

Investment income on shareholders' funds in 1H20 was a profit of $50m, a significant improvement against 1H19 (loss of $7m). This reflected:

- Lower average funds held, of approximately $4.5bn;
- A relatively strong performance by domestic and offshore equity markets, compared to the negative returns of 1H19;
- A positive return from alternative investments; and
- An $8m writedown of IAG's 16.9% interest in Bohai in China.

The S&P ASX200 Accumulation Index in Australia delivered a positive return of 3.1% in 1H20 (1H19: -6.8%), while the MSCI World Total Return Index (AUD Hedged) produced a positive return of 8.9% (1H19: -8.7%).

INVESTMENT INCOME	1H19 A$m	2H19 A$m	1H20 A$m
Technical reserves	102	219	81
Shareholders' funds	(7)	234	50
Total investment income	**95**	**453**	**131**

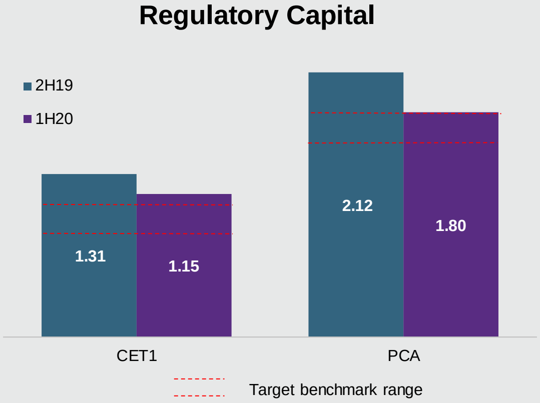
Solid return on technical reserves

Rebound in shareholders' funds income vs. 1H19 reflects relative strength in equity markets

9. BALANCE SHEET & CAPITAL

EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
- CET1 multiple of 1.15 vs. benchmark of 0.9-1.1
- PCA multiple of 1.80 vs. revised benchmark of 1.6-1.8
- Debt and hybrids 31.9% of total tangible capitalisation – towards lower end of targeted range
- Redemption of $550m RES completed in December 2019
- Potential new Tier 2 instrument issuance in 2H20
- S&P ‘AA-’ rating of core operating subsidiaries



BALANCE SHEET

	1H19 A$m	FY19 A$m	1H20 A$m
Assets			
Cash and cash equivalents	431	538	324
Investments	10,605	10,684	9,947
Investments in joint ventures and associates	517	544	362
Trade and other receivables	3,911	4,170	4,029
Reinsurance and other recoveries on outstanding claims	5,469	5,779	6,014
Deferred insurance expenses	3,605	3,451	3,542
Goodwill and intangible assets	3,173	3,098	3,110
Assets held for sale	63	61	216
Other assets	992	961	1,509
Total assets	**28,766**	**29,286**	**29,053**
Liabilities			
Outstanding claims	10,352	10,296	10,476
Unearned premium	6,227	6,334	6,195
Interest bearing liabilities	1,976	2,080	1,532
Trade and other payables	2,835	2,680	2,610
Liabilities held for sale	27	27	17
Other liabilities	1,008	1,159	1,848
Total liabilities	**22,425**	**22,576**	**22,678**
Net assets	**6,341**	**6,710**	**6,375**
Equity			
Equity attributable to holders of ordinary shares	6,110	6,404	6,177
Non-controlling interests	231	306	198
Total equity	**6,341**	**6,710**	**6,375**

9. BALANCE SHEET & CAPITAL

Balance sheet movements include RES redemption effect and revised treatment of leased assets

IAG's total assets at 31 December 2019 were $29,053m compared to $29,286m at 30 June 2019. The net decrease of $233m includes:

- A greater than $950m reduction in cash and investments, principally reflecting:
  - Payment of the final dividend for FY19, which exceeded earnings in 1H20; and
  - Redemption of the $550m Reset Exchangeable Securities (RES) in December 2019;
- A greater than $200m increase in reinsurance and other recoveries on outstanding claims, reflecting recent peril events; and
- A greater than $500m increase in other assets to include the first-time recognition of right-of-use leased assets, as required under AASB 16.

During 1H20, the investment in SBI General in India was reclassified from investments in joint ventures and associates to assets held for sale.

The other assets category represents the aggregate of deferred levies and charges, deferred tax assets, property and equipment, right-of-use assets and other assets.

IAG's total liabilities at 31 December 2019 were $22,678m, compared to $22,576m at 30 June 2019. The small net increase includes:

- A reduction in interest-bearing liabilities following the redemption of the $550m RES in December 2019; and
- A greater than $500m increase in other liabilities, including:
  - The first-time recognition of lease liabilities related to right-of-use leased assets, as required under AASB 16; and
  - Recognition of a provision for customer refunds.

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

IAG shareholders' equity (excluding non-controlling interests) reduced from $6,404m at 30 June 2019 to $6,177m at 31 December 2019. This predominantly reflects the net effect of earnings in 1H20 less the 20 cent per share final dividend ($462m) paid in September 2019.

CAPITAL

Capital Adequacy

IAG is strongly capitalised

IAG is strongly capitalised, with regulatory capital of $4.25bn at 31 December 2019. At that date, IAG's Common Equity Tier 1 (CET1) ratio was 1.15 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 1.31 multiple reported at 30 June 2019, owing to the net effect of:

- Earnings in 1H20, less the final FY19 dividend paid in September 2019;
- Modest further favourable quota share impact;
- Reduced excess technical provisions over liabilities, incorporating revised FY20 net peril expectations applicable to unearned business;
- Initial effects of the new accounting standard relating to leases; and
- Increased deferred tax assets, from the customer refunds provision partially offset by further utilisation of New Zealand tax losses.

9. BALANCE SHEET & CAPITAL

COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H19 A$m	FY19 A$m	1H20 A$m
Common Equity Tier 1 Capital (CET1)			
Ordinary shares	6,617	6,617	6,617
Reserves	39	47	42
Retained earnings	(497)	(211)	(433)
Technical provisions in excess of liabilities	505	500	425
Minority interests	231	306	198
Less: Deductions	(4,153)	(4,177)	(4,135)
Total Common Equity Tier 1 Capital	**2,742**	**3,082**	**2,714**
Additional Tier 1 Capital			
Hybrid equities	624	569	404
Total Tier 1 Capital	**3,366**	**3,651**	**3,118**
Tier 2 Capital			
Subordinated term notes	1,293	1,330	1,136
Total Tier 2 Capital	**1,293**	**1,330**	**1,136**
Total Regulatory Capital	**4,659**	**4,981**	**4,254**
Prescribed Capital Amount (PCA)			
Insurance risk charge	1,002	987	968
Insurance concentration risk charge	169	169	169
Diversified asset risk charge	1,358	1,407	1,431
Aggregation benefit	(566)	(572)	(570)
Operational risk charge	365	363	360
Total Prescribed Capital Amount	**2,328**	**2,354**	**2,358**
PCA multiple	**2.00**	**2.12**	**1.80**
CET1 multiple	**1.18**	**1.31**	**1.15**

Unused tax losses stemming from the Canterbury earthquakes in New Zealand in FY11 stood at approximately $296m at 31 December 2019, and are disallowed for regulatory capital calculation purposes. During 1H20, related tax losses on the balance sheet reduced by around $27m, with negligible foreign exchange translation effect.

Allowing for the interim dividend which will be paid in March 2020, the CET1 ratio at 31 December 2019 would reduce to 1.06.

IAG's PCA at 31 December 2019 was similar to that of six months earlier, with no significant movements in its constituent parts. A lower PCA ratio of 1.80 was influenced by the same factors driving the reduced CET1 ratio. In addition, it reflected a lower regulatory capital contribution from hybrid equities and subordinated term notes, in large part owing to the redemption of the RES which contributed ~$360m of regulatory capital at 30 June 2019.

IAG has increased its targeted PCA multiple range from 1.4-1.6 to 1.6-1.8. This reflects reduced reliance on inter-company loans from Australian insurance subsidiaries to IAG's non-operating holding company, as required by APRA following the licence consolidation completed in 2017. IAG's reported PCA multiple has consistently met or exceeded the revised target range of 1.6-1.8 since the introduction of APRA's LAGIC regime at the beginning of calendar 2013.

PCA multiple target range increased to 1.6-1.8, reflecting reduced reliance on inter-company loans

9. BALANCE SHEET & CAPITAL

Interest Bearing Liabilities

IAG's interest bearing liabilities stood at $1,532m at 31 December 2019, compared to $2,080m at 30 June 2019. The net movement in the period largely reflects IAG's redemption of the $550m RES issue in December 2019, as previously foreshadowed.

INTEREST BEARING LIABILITIES	1H19 A$m	FY19 A$m	1H20 A$m
Subordinated debt	1,033	1,135	1,136
Reset Exchangeable Securities	550	550	-
Capital Notes	404	404	404
Subtotal interest bearing liabilities	**1,987**	**2,089**	**1,540**
Capitalised transaction costs/other	(11)	(9)	(8)
Total interest bearing liabilities	**1,976**	**2,080**	**1,532**

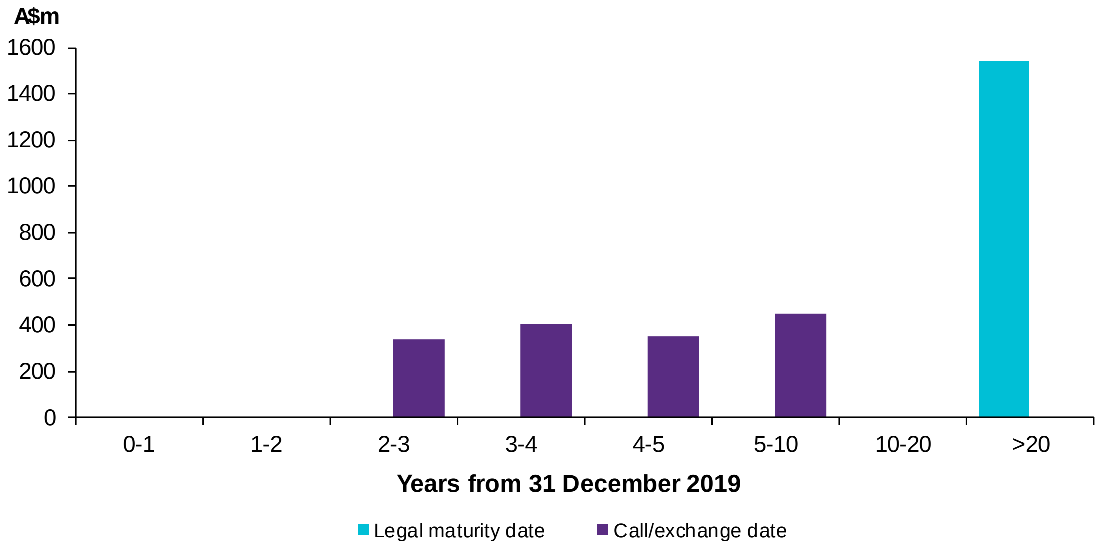
DEBT & HYBRID CAPITAL	Principal amount $m	Principal amount A$m	Yield %	Rate	First Call or Exchange date	S&P rating
Subordinated fixed rate notes	NZ$350	336	5.15%	Fixed	Jun-22	'BBB'
Subordinated term notes (issued Mar-18)[1]	A$350	350	3.00%	Variable	Jun-24	'BBB'
Subordinated term notes (issued Mar-19)[2]	A$450	450	3.25%	Variable	Jun-25	'BBB'
Total Debt		**1,136**				
Capital Notes (IAGPD)[3]	A$404	404	3.92%	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] *The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.*

DEBT MATURITY PROFILE



9. BALANCE SHEET & CAPITAL

Capital Mix

Capital mix within targeted ranges

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	1H19 A$m	FY19 A$m	1H20 A$m
Shareholder equity	6,341	6,710	6,375
Intangibles and goodwill	(3,173)	(3,098)	(3,110)
Tangible shareholder equity	**3,168**	**3,612**	**3,265**
Interest bearing liabilities	1,976	2,080	1,532
Total tangible capitalisation	**5,144**	**5,692**	**4,797**
Debt to total tangible capitalisation	**38.4%**	**36.5%**	**31.9%**

At 31 December 2019, debt and hybrids represented 31.9% of total tangible capitalisation, towards the lower end of IAG's targeted debt range. The decrease since FY19 largely reflects the impact of the RES redemption which was completed in December 2019.

Subject to market conditions, IAG may seek to issue a new long-dated Tier 2 subordinated instrument prior to 30 June 2020 to provide additional liquidity.

Capital Management

Retained intent to manage capital to CET1 benchmark range

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.

On 17 October 2019 IAG announced the agreed sale of its entire 26% interest in SBI General in India. Anticipated to complete in 2H20, IAG has advised this divestment is expected to increase its regulatory capital position by over $400m.

IAG will advise of any associated capital management initiative once the related transactions have completed. The form and size of any initiative will take into account factors such as operational capital demands and IAG's franking position.

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.

10. SAFER COMMUNITIES

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

In 1H20, IAG continued to evolve its **Safer Communities Plan** to deliver on its purpose, prioritising two key areas where it can make a meaningful difference to society and create commercial value:

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

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

Commitment to UN Sustainable Development Goals

IAG supports the international commitment to the United Nations' 17 Sustainable Development Goals (SDGs) to advance economic, social and environmental prosperity. This support recognises that the social and environmental challenges faced by communities, countries and regions affect business and influence commercial success. While IAG's work to create safer communities and focus on risk transfer through insurance can support many of the SDGs, IAG prioritises those SDGs where it can make the largest difference:

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 community, environment and economy. Issues identified as material to IAG's business for FY20 are:

Post disaster relief and emergency response	Customer and partner experience	Trust in institutions	Accessibility and affordability of insurance	Community connection and resilience	Climate change and its impacts

DEMONSTRATING LEADERSHIP AS A RESPONSIBLE AND ETHICAL BUSINESS

IAG works at global, national and community levels, partnering and taking a community-led approach to accelerating the role business plays in building resilience.

Supporting sustainable finance in Australia and New Zealand

Co-Chair of ASFI, overseeing finance sector roadmap

In Australia, IAG is Co-Chair of the Australian Sustainable Finance Initiative (ASFI), which is working to set a roadmap to realign the finance sector to support greater social, environmental and economic outcomes.

10. SAFER COMMUNITIES

In December 2019, ASFI released its first progress report, identifying six critical challenges that the finance sector must address to navigate risks and opportunities for Australia's future resilience, prosperity and wellbeing:

- Leadership, culture and institutional structures;
- Community and consumer interests and expectations;
- Frameworks, tools and standards;
- Decision-making and valuation;
- Unlocking sustainable finance and allocating capital to where it is needed; and
- Policy, regulation and supervision.

In New Zealand, IAG plays a key role in the Sustainable Finance Forum, an initiative of The Aotearoa Circle, which is a partnership of public and private sector leaders committed to sustainable prosperity and the conservation of natural resources across the country.

Key role in Sustainable Finance Forum in New Zealand

In both forums, IAG contributes knowledge, insights and capability towards developing sector-wide approaches to the availability and affordability of insurance products and addressing sustainability issues which are affecting financial systems.

The shared social and economic value of addressing mental health

With 45% of Australian workers experiencing mental illness which costs Australian business $13bn each year in lost wages, decreased productivity and support services, mental health has a significant impact on personal well-being, social connection and business productivity and profitability. IAG has collaborated with the Shared Value Project (which it helped found in 2014) and other corporate entities to research how strengthening mental health and well-being can improve economic productivity and social resilience outcomes.

Collaborative approach to mental health issues with Shared Value Project

The collaboration launched a report – *Creating Shared Value: The Business Imperative to Improve Mental Health* – in conjunction with World Mental Health Day on 10 October 2019. The report demonstrates how companies can gain a competitive advantage by proactively addressing mental health challenges faced by employees, customers and communities. IAG is committed to using the research to deepen its approach on this key issue with its employees, value chain and the communities it works with.

DISASTER RISK REDUCTION AND CLIMATE CHANGE

IAG enables communities in Australia and New Zealand to better prepare for, and respond to, natural perils and climate change by using its unique knowledge, capabilities and assets in partnership with others.

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

Climate change risks and opportunities

Governance: IAG's Board reviews and monitors IAG's shared value, safer communities and sustainability strategy, including its response to climate change. IAG's Chief Executive Officer has management accountability for the implementation, performance and external disclosure of IAG's safer communities' activities, which include activities related to climate change and the Climate Action Plan.

Six-monthly progress updates against the Climate Action Plan are published in the Safer Communities section of www.iag.com.au.

10. SAFER COMMUNITIES

Strategy: Climate change is a key consideration in IAG's strategy-setting process. IAG uses risk-based pricing, reinsurance and annual premium adjustment to address the short term risks of climate change, and longer term recognises considerations such as the increasing frequency and severity of natural peril events.

In November 2019, IAG released *Severe Weather in a Changing Climate*, a report co-authored with the US National Center for Atmospheric Research (NCAR) which included the latest data on the state of the climate and predictions on future extreme weather events based on a range of warming global temperatures. It aims to help eliminate unnecessary duplication of work on the subject and to encourage feedback to move towards establishing a central source of best scientific information.

Co-authored report on extreme weather event trends

The research includes tropical cyclones, hail / severe convection storms, east-coast lows, floods and bushfires, and identified bushfire risk as one of the fastest-growing climate risks in Australia. The rate of increase in bushfire risk varies by location and depends on weather system changes, such as increasing temperatures and drying, as well as regional site-specific factors.

Metric		Benchmark	Climate Change Impact (confidence level)			
			Present Climate	+1.5°C	+2°C	>+2°C
Bushfire	McArthur Forest Fire Danger Index	1973-2010	Increasing in all Australian regions especially in the south-east (High)	15-65% increase in number of extreme fire danger days (FFDI>50) for +1°C (Medium)	Further increases typically <10% (Medium)	Increases >30% in southern and eastern Australia (High) Further increases or no changes in other regions (Medium) 100-300% increase in number of extreme fire danger days (FFDI>50) for +3°C (Medium)

IAG is using this research to continue its work to deliver better pricing, engage the insurance and academic community in improving the quality of insights and inform the community of the severe weather challenges that are being exacerbated by climate change. The insights are also being used to understand risk reduction options and to drive change that addresses external issues such as inadequate building codes and land planning.

IAG has created four 2030 +2°C climate scenarios which provide different experiences for futures based on rapid climate change and the external factors of trust, inequality and regulation. The scenarios are being used to embed climate risks and opportunity insights into business planning and strategy, with an initial focus on product and pricing.

Risk management: IAG identifies climate change as a strategic risk through its Enterprise Risk Profile and manages risks which may stop it meeting or achieving its strategic objectives.

IAG has assessed downstream transition risk through its supply chain by analysing the materials breakdown of its annual spend across motor, property and claims procurement. Three scenarios were modelled:

- +1.5°C 'stretch' scenario of rapid decarbonisation across the economy with rapid innovation;
- 'Balanced' decarbonisation scenario based on a steady orderly transition achieving +2°C, the upper Paris target; and
- 'Delayed action' scenarios aligned to a >+2°C temperature increase in a business as usual approach followed by a rapid transition.

10. SAFER COMMUNITIES

Under all scenarios, the transition risk impacts on the home and motor supply chains to 2030 and 2050 are small, confirming physical risks, such as natural peril frequency and intensity, present the most material medium and long term risks to IAG's business. IAG will use this analysis to manage associated risks and identify opportunities through its supply chain.

IAG has also considered the regional impacts of transition risk and opportunities, based on changes in economic activity for different sectors to 2030 and 2050. It will integrate this information into the physical risk and opportunity impact assessment.

IAG continues to review and refine its investment criteria, by assessing and using Environmental, Social and Governance research, engaging with other like-minded investors and counterparties and participating in organisations like the UN-supported Principles for Responsible Investment.

Minor investment exposure to high risk companies

IAG's investment processes for its equity portfolio:

- Exclude or restrict exposure to high risk companies with poor climate change risk management; and
- Support investment in those companies that are reducing their carbon risk or investing in renewables.

The normalised carbon footprint of IAG's equity portfolios has continued to fall since 30 June 2019, while the proportion of IAG's investment portfolio exposed to high risk companies declined to 0.08% at 31 December 2019, down from 0.13% six months earlier. In 2019, IAG's investment mandates excluded companies predominantly engaged in mining thermal coal.

Metrics and targets: IAG has been carbon neutral since 2012. Using FY18 as a baseline, IAG's Science Based Targets for scope 1 and 2 emissions are:

- A 20% reduction by FY20;
- 43% by FY25;
- 71% by FY30; and
- 95% by FY50.

On track to achieve FY20 absolute carbon science-based emissions reduction target

IAG is on track to achieve its 20% reduction target by the end of FY20.

Helping communities be safer and more resilient

IAG is a founding member of the **Australian Business Roundtable for Disaster Resilience and Safer Communities** (ABR) which was established at the end of 2012. The ABR works with Emergency Management Australia and other key stakeholders to contribute to the development of the national action plan to deliver on the National Disaster Risk Reduction Framework.

The ABR's research has continued to be used by a diverse range of stakeholders to inform the national conversation around disaster resilience and climate resilience.

Long-standing community partnerships with SES and Australian Red Cross

IAG's collaborative community partnership approach helps bring its purpose to life. With storms and floods accounting for the majority of natural disaster costs in NSW, IAG's valuable strategic partnership with the State Emergency Service (SES) is an example of collaboration that helps communities be safer and more resilient.

A cornerstone of the partnership with SES is the annual 'Storm Season' preparedness campaign that raises awareness of how individuals can reduce the impact of weather events on their lives and properties. The latest campaign, launched in October 2019, achieved high levels of community outreach, with campaign material accessible by over 8 million people.

10. SAFER COMMUNITIES

IAG’s partnership with the Australian Red Cross has continued to foster resilience building and preparation through the co-created ‘Get Prepared’ mobile app. This helps users develop and connect a support network and identify actions to protect themselves, their loved ones and their valuables in the face of emergencies. From July 2019, users of the app grew by more than 50% and there were over 28,000 downloads by 31 December 2019.

Since November 2019, IAG has assisted the NSW Rural Fire Service’s (RFS) efforts to combat bushfires by deploying its NRMA Insurance helicopter. This has involved trialling a new biodegradable, non-toxic fire retardant to help protect homes and properties in the line of fire, as well as more conventional water-bombing activities.

NRMA Insurance helicopter assisting RFS in combatting bushfires

COMMUNITY CONNECTION AND RESILIENCE

IAG recognises that the viability of its business is heavily influenced by the ability of connected, confident and resilient communities to respond to evolving risks and challenges. IAG partners with communities to ensure they can thrive.

Building Good ’Hoods with High Fives

IAG’s Good ’Hoods program aims to grow community connection across Australia. Good ’Hoods identifies existing community-led initiatives that help strengthen local resilience and shares key lessons and insights from their approaches so they can be scaled up and replicated across the country. Initiatives underway in Blacktown, NSW and Murrindindi in Victoria are focused on growing economic inclusion, enhancing community connection, promoting local leadership and preparing for severe weather events.

In November 2019, IAG used Good ’Hoods to help bring to life the work of fifteen Blacktown-based organisations, working on issues as diverse as domestic violence to multicultural services, through an innovative NRMA Insurance ‘High Five for Blacktown’ event. This three-day activity encouraged members of the community to interact and connect with each other by giving a high five. IAG made a donation to one of the local resilience-building organisations for each high-five given.

Recognising Indigenous ingenuity

In line with its commitments to support Indigenous change-makers, influencers and entrepreneurs, IAG partnered with Indigenous Business Month in October 2019 to provide grants through the Wa-murayangkulang (“walk forward”) Awards to Indigenous small-to-medium-sized enterprise owners to help improve their capacity and capability to run a successful business. Indigenous Business Month is driven by the alumni of Melbourne Business School’s MURRA Indigenous Business Master Class. It shares IAG’s vision that thriving Aboriginal and Torres Strait Islander-owned businesses are key to improving the quality of life in Indigenous communities and providing positive role models for young Indigenous Australians.

IAG’s Firemark Labs is currently working with all applicants for the Wa-murayangkulang Awards to identify possible incubation opportunities.

APPENDIX A BRAND PORTFOLIO

PORTFOLIO OF INSURANCE BRANDS AND MARKETS

100%-owned unless indicated (all ownership percentages are as at 31 December 2019).

1. IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.
2. IAG owns 100% of Insurance Australia Limited (IAL), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with IAL.
3. IAG owns 49% of the general insurance arm of Malaysia-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.
4. IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India. On 17 October 2019 announced it had agreed the sale of its entire 26% interest, which is expected to complete in 2H20.

APPENDIX B IAG BUSINESS SNAPSHOT

AUSTRALIA

Personal

Personal lines products are sold in Australia through branches, call centres, the internet and representatives, under:

- The NRMA Insurance brand in NSW, ACT, Queensland and Tasmania;
- The SGIO brand in Western Australia;
- The SGIC brand in South Australia;
- The RACV brand in Victoria, via a distribution agreement with RACV;
- The Coles Insurance brand nationally, via a distribution agreement with Coles;
- The WFI brand nationally; and
- The CGU Insurance brand through affinity and financial institution partnerships, as well as direct and broker/agent channels.

Personal also includes travel insurance, life insurance and income protection products which are underwritten by third parties.

Short tail insurance

- Motor vehicle
- Home and contents
- Lifestyle and leisure insurance, such as boat, veteran and classic car and caravan

Long tail insurance

- Compulsory Third Party (motor injury liability)

Commercial

Commercial lines products are sold in Australia through a network of around 2,000 intermediaries, such as brokers, agents and financial institutions, and directly through call centre and online channels. IAG is a leading provider of business and farm insurance in Australia.

IAG's commercial lines business operates across Australia under the following brands:

- CGU Insurance
- WFI
- NRMA Insurance
- RACV
- SGIC
- SGIO

Short tail insurance

- Business packages
- Farm and crop
- Commercial property
- Construction and engineering
- Motorcycle
- Commercial motor and fleet motor

Long tail insurance

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

NEW ZEALAND

IAG's New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers, primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley brands. Personal products and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.

New Zealand also offers travel insurance, which is underwritten by a third party.

Short tail insurance

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

Long tail insurance

- Personal liability
- Commercial liability

APPENDIX C KEY RELATIONSHIPS

GLOBAL

BERKSHIRE HATHAWAY

Berkshire Hathaway Inc. is one of the largest listed companies in the world, by market capitalisation. It owns a diversified portfolio of businesses and investments, of which interests in the insurance and reinsurance industries form a significant part.

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

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

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

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

AUSTRALIA

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED (NRMA)

NRMA was established in 1920 and is a mutual organisation with over 2.6 million members. Until August 2000 it owned the NRMA Insurance business. At that time NRMA and its members received IAG shares as consideration for the NRMA Insurance business to demutualise. The NRMA Insurance business now forms a large part of IAG's Australian operations.

Under the terms of the demutualisation agreements, NRMA and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- NRMA – roadside assistance and other motoring services (except smash repairs), motoring products, transportation and travel.
- IAG (NRMA Insurance) – insurance and financial services and any other good or service not specifically reserved for NRMA.

In addition, both parties cannot, under any brand, carry out activities engaged in by the other at the point of demutualisation.

IAG continues to provide certain services to NRMA, notably those in respect of the NRMA branch network which is operated and managed by IAG. NRMA started selling NRMA Insurance's motor insurance products as a distributor in 2016, and in December 2019 it became an Authorised Representative enabling it to market NRMA Insurance products to its members and customers.

The two organisations retain a strong and closely aligned relationship, with a focus on delivering a consistent NRMA brand customer experience.

APPENDIX C KEY RELATIONSHIPS

ROYAL AUTOMOBILE CLUB OF AUSTRALIA (RACV)

RACV is a mutual organisation founded in 1903. It provides a diverse range of services to 2.2 million members. These services include: insurance; finance; emergency roadside and home assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.

IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV established in 1999. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV.

If one of IMA's shareholders experiences a change of control, the other has a pre-emptive right to acquire that shareholder's interest at fair market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA's reinsurance of NRMA Insurance-branded products in NSW and the ACT.

Towards the end of FY19, IAG established a majority-owned joint venture with RACV that entails an enhanced motor repair model to improve the consistency and quality of repairs, as well as improving the customer experience by getting cars back on the road quickly. The joint venture also involves two repair partners.

ASIA

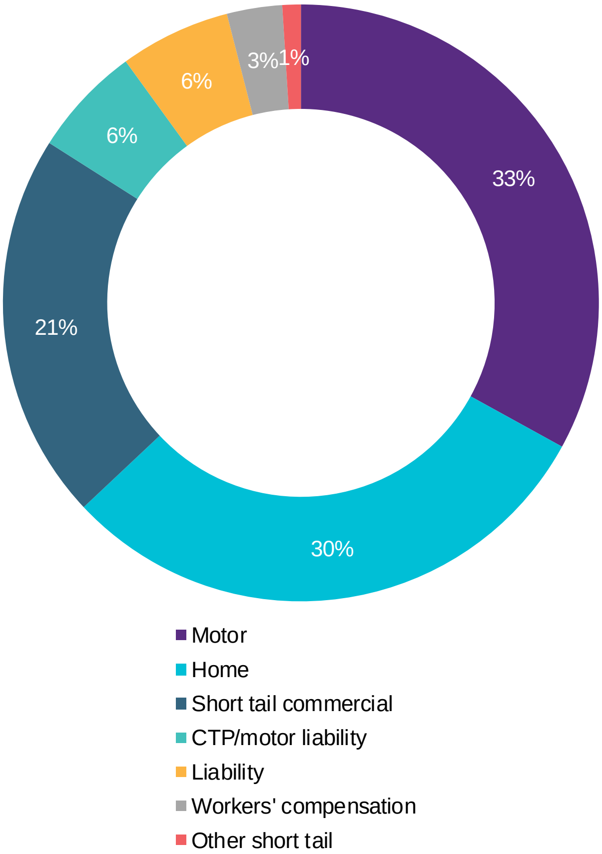
AMBANK GROUP

Established in August 1975, AmBank Group is the sixth largest banking group in Malaysia. The Group comprises AMMB Holdings Berhad, a public listed company on the Main Board of Bursa Malaysia. The Group offers a comprehensive range of both conventional and Islamic financial solutions through its retail banking, business banking, wholesale banking, general insurance, life insurance and family takaful businesses.

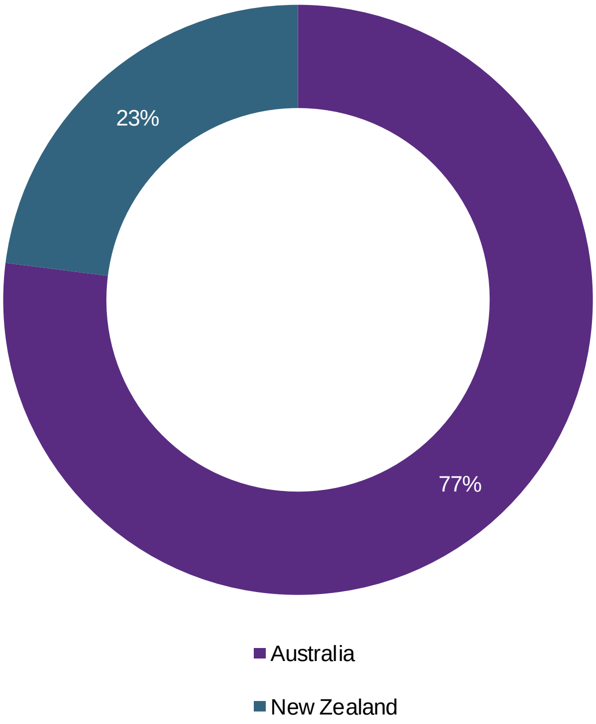
IAG has a general insurance joint venture in Malaysia with AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which was established in 2006. AmBank Group owns 51% of AmGeneral and IAG 49%. AmGeneral is a leading motor insurer and among the largest general insurers in Malaysia based on GWP. Together with AmBank, a full range of insurance products and services is offered through all customer touchpoints and channels.

APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

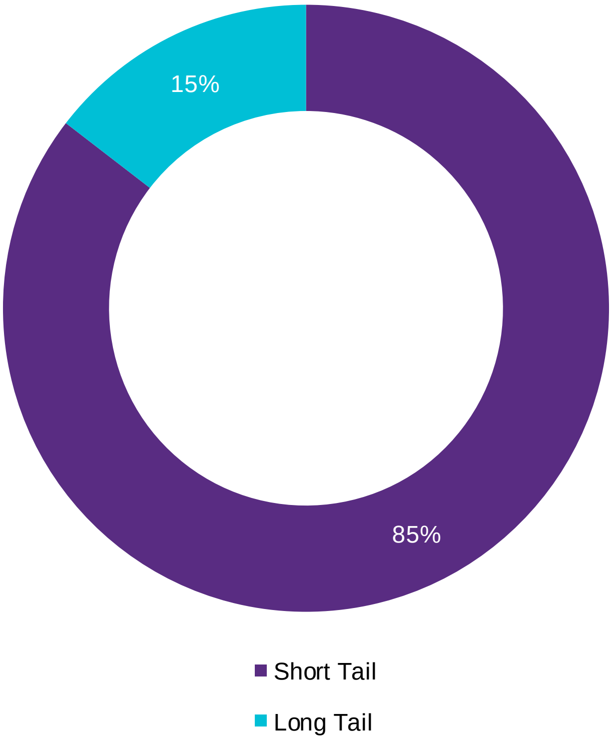
GWP BY PRODUCT — 1H20



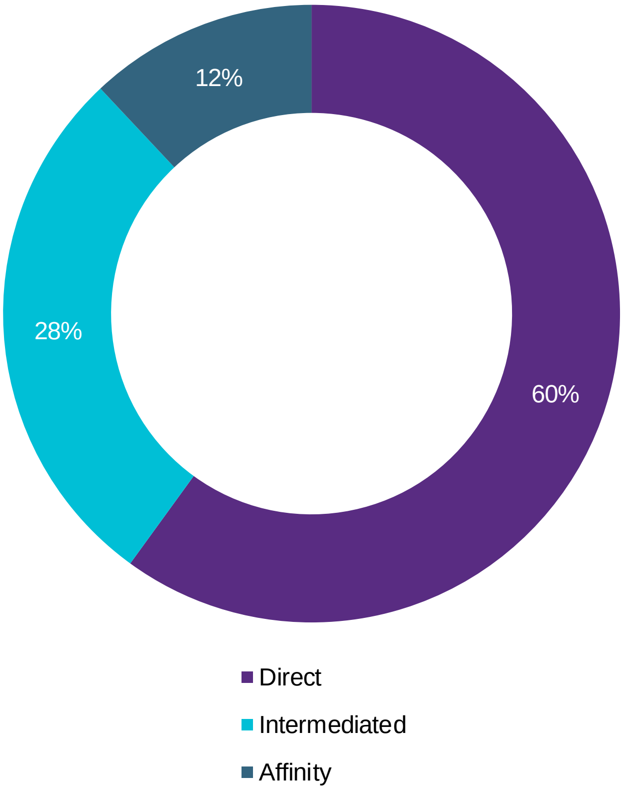
GWP BY BUSINESS — 1H20



GWP BY TAIL — 1H20



GWP BY CHANNEL — 1H20



APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2019 is set out below. It does not include announcements of changes in directors' interests. Reference should be made to a copy of the ASX announcements if further information is required. These are available at http://www.iag.com.au.

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

IAG announced the appointment of Christine Stasi as Group Executive People, Performance and Reputation, commencing late October 2019.

8-AUG-19 **IAG ANNOUNCES FY19 RESULTS**

IAG announced its FY19 results which demonstrated further improvement in underlying performance. Like-for-like GWP growth was close to 4% and was largely rate-driven, while the underlying insurance margin increased to 16.6%. A lower reported insurance margin of 16.9% was at the mid-point of guidance and included lower reserve releases and an adverse net perils experience compared to FY18. A 20 cent final dividend, franked to 70%, brought the full year payout to 32 cents per share, representing 79.4% of cash earnings. A strong capital position was maintained with a CET1 ratio of 1.31, above benchmark.

12-AUG-19 **IAG APPOINTS GROUP GENERAL COUNSEL**

IAG announced the appointment of Peter Horton as Group General Counsel, expected to commence by the end of 2019.

26-AUG-19 **SHAREHOLDER RESOLUTIONS FOR CONSIDERATION AT THE 2019 AGM**

IAG gave notice of AGM resolutions promoted by Market Forces and requisitioned by a group of shareholders representing 0.017% of IAG's share capital. These resolutions sought to 1) amend the company's constitution and 2) seek disclosure of fossil fuel exposure reduction targets. In its subsequently released Notice of Meeting, IAG's Board recommended shareholders vote against these resolutions.

5-SEP-19 **DIVIDEND REINVESTMENT PLAN PRICING**

IAG advised that ordinary shares allocated under the Dividend Reinvestment Plan for the dividend payable on 30 September 2019 would be priced at $7.993 per share.

10-SEP-19 **NOTICE OF ANNUAL GENERAL MEETING**

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

20-SEP-19 **REDEMPTION OF $550M RESET EXCHANGEABLE SECURITIES**

IAG gave notice that all outstanding Reset Exchangeable Securities (RES) would be redeemed on 16 December 2019 at the face value of $100 plus a final interest payment of $0.9656 per RES.

17-OCT-19 **IAG AGREES SALE OF 26% INTEREST IN SBI GENERAL**

IAG announced it had agreed to sell the whole of its 26% interest in its joint venture with the State Bank of India, SBI General Insurance Company, via two transactions. Anticipated to complete in FY20, the transactions are expected to result in an increase in IAG's regulatory capital position of more than $400m and a net profit after tax of over $300m.

25-OCT-19 **ANNUAL GENERAL MEETING (AGM)**

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

APPENDIX E KEY ASX RELEASES

1-NOV-19 **RESIGNATION OF COMPANY SECRETARY**

IAG advised that Rebecca Farrell had resigned as Company Secretary, effective 1 November 2019.

12-NOV-19 **DIRECTOR APPOINTMENT**

IAG announced the appointment of Simon Allen as an independent non-executive director to the IAG Board and that he would be appointed Chairman of IAG's wholly-owned subsidiary, IAG New Zealand Limited, where he has been a non-executive director since September 2015.

21-NOV-19 **INVESTOR PRESENTATION: SEVERE WEATHER IN A CHANGING CLIMATE**

IAG lodged a copy of the presentation being given by members of IAG's Natural Perils team to investors and other market participants, entitled *Severe weather in a changing climate*. This followed the recent launch of a similarly-named report co-authored with the US-based National Center for Atmospheric Research.

25-NOV-19 **REVISED GROUP SECURITY TRADING POLICY**

IAG lodged its revised Group Security Trading Policy in accordance with Listing Rule 12.10.

10-DEC-19 **2020 CALENDAR OF KEY DATES**

IAG issued its calendar of key dates for 2020.

19-DEC-19 **APPOINTMENT OF COMPANY SECRETARY**

IAG advised that Peter Horton had been appointed Company Secretary, effective 19 December 2019. His role at IAG is Group General Counsel & Company Secretary.

3-JAN-20 **IAG FINALISES 2020 CATASTROPHE COVER AND PROVIDES PERILS UPDATE**

IAG advised it had finalised its catastrophe reinsurance program for the 2020 calendar year, increasing its gross reinsurance protection to $10bn. Placed to the extent of 67.5% to reflect cumulative whole-of-account quota share arrangements, the combination of all catastrophe covers in place at 1 January 2020 results in maximum first event retentions (post-quota share) of $169m for Australia and NZ$169m for New Zealand. In addition, a perils update was provided which indicated an estimated net natural perils claim cost of approximately $400m for 1H20, compared to a corresponding allowance of $320m, including over $160m of costs from bushfire events.

21-JAN-20 **BEN BESSELL TO LEAVE IAG**

IAG announced that Group Executive Ben Bessell had decided to leave the company at the end of March 2020 after more than 26 years with IAG. Mr Bessell had held several executive positions within IAG and the CGU Insurance business and had been a member of the Group Leadership Team since 2015.

APPENDIX E KEY ASX RELEASES

24-JAN-20 **IAG OUTLINES 1H20 RESULTS, CUSTOMER REFUNDS PROVISION, HAILSTORM IMPACT AND UPDATED FY20 GUIDANCE**

IAG provided an update to its FY20 reported margin guidance, based on expected results for the six months ended 31 December 2019 and on a revised view of full year net natural peril claim costs in the wake of the recent hailstorm event. IAG also indicated its 1H20 results will contain a post-tax provision of approximately $80m for a customer refunds program.

IAG advised it expected its 1H20 results to include:

- GWP growth of around 1.4%;
- An underlying insurance margin of 16.9%; and
- A reported insurance margin of 13.5%, after inclusion of:
  - Net natural peril claim costs of $419m;
  - Lower than anticipated net reserve releases of $5m; and
  - A modestly favourable credit spread effect.

IAG advised the indicated post-tax provision of approximately $80m is for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This relates to a specific multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for some customers.

IAG also advised the hailstorms which impacted parts of Melbourne, Canberra and Sydney over the course of 19 and 20 January 2020 would be treated as one event under its reinsurance arrangements. Based on projected claim volumes and the severity of related damage, the event was anticipated to result in a pre-tax cost of $169m (post-quota share) in line with IAG's maximum first event retention.

After consideration of the preliminary 1H20 results and the hailstorm event, IAG revised its FY20 guidance, to:

- Reaffirm its 'low single digit' GWP growth expectation; and
- Reduce its reported insurance margin guidance to a range of 14.5-16.5%, from the previously advised 16-18%.

The 150 basis point reduction in FY20 reported insurance margin guidance was due to:

- An approximately 50 basis point effect from reduction in prior period reserve release expectations to around 0.5% of net earned premium, compared to previous guidance of around 1%; and
- An approximately 100 basis point effect from an increased net natural peril claim cost assumption of $715m, compared to previous guidance of $641m.

29-JAN-20 **DAVID HARRINGTON TO LEAVE IAG**

IAG announced that Group Executive David Harrington had decided to leave the company at the end of March 2020. Mr Harrington had been with IAG for more than eight years, first joining as General Manager Corporate Office in its CGU business. He had been a member of IAG's Group Leadership Team since 2015 as Group Executive of Strategy and Corporate Development.

5-FEB-20 **IAG APPOINTS CHIEF STRATEGY & INNOVATION OFFICER**

IAG appointed Julie Batch as Chief Strategy & Innovation Officer to lead a newly created Strategy & Innovation division which combines IAG's existing strategy function with its Customer Labs division. Ms Batch was previously IAG's Chief Customer Officer. In addition, it was announced IAG Group Executive Technology Neil Morgan will lead an expanded Technology & Digital division.

APPENDIX F GLOSSARY

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

AFFINITY	A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.
APRA	Australian Prudential Regulation Authority.
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 after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of IAG's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.
CASH ROE	IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles.
CLAIMS HANDLING EXPENSES	Those administration costs incurred in the investigation, assessment and settlement of a claim.
COMBINED RATIO	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
COMMON EQUITY TIER 1 CAPITAL (CET1)	The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.
CREDIT SPREAD	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
DEFERRED ACQUISITION COSTS (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DISCOUNT RATE	In accordance with Australian Accounting Standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.

APPENDIX F GLOSSARY

DRP	Dividend Reinvestment Plan, where shareholders receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
EPS	Earnings per share.
EXCHANGE COMMISSION	A fee, comprising fixed and variable components, paid under a quota share agreement by a reinsurance company to a ceding insurer to cover administrative costs, acquisition expenses and access to the underwriting profits of the ceded business.
EXPENSE RATIO	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
FIRE SERVICE LEVIES	Fire service levies are taxes on insurers to assist government funding for fire and emergency services. 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 income tax paid on dividends received. IAG also receives franking credits from its Australian equity investment portfolio.
GROSS EARNED PREMIUM	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
GROSS WRITTEN PREMIUM (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
IFRS	International Financial Reporting Standards.
IMMUNISED RATIO	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
INSURANCE MARGIN	The ratio of insurance profit to net earned premium.
INSURANCE PROFIT	Underwriting result plus investment income on assets backing technical reserves.

APPENDIX F GLOSSARY

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

APPENDIX F GLOSSARY

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 after tax divided by average equity attributable to owners of the company.
SHAREHOLDERS' FUNDS	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
SHORT TAIL	Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
SME	Small-to-medium-sized enterprise.
TECHNICAL RESERVES	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.
TEPLA	The Excess Profit or Loss Adjustment (TEPLA) is the adjustment required to ensure profit recognition under the 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.

APPENDIX F GLOSSARY

UNDERLYING MARGIN	IAG defines underlying margin as the reported insurance margin adjusted for: • Net natural peril claim costs less related allowance; • Reserve releases in excess of, or below, 1% of NEP; and • Credit spread movements. The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.
UNDERWRITING	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
UNDERWRITING EXPENSES	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
UNDERWRITING PROFIT/(LOSS)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
UNEARNED PREMIUM	Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.

DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**): 2,311,046,583 on issue at 31 December 2019
- Capital Notes (**IAGPD**): 4,041,265 on issue at 31 December 2019

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ$350m outstanding at 31 December 2019

KEY DATES

Interim dividend – ordinary shares	
• Ex-dividend date	18 February 2020
• Record date	19 February 2020
• DRP record date	20 February 2020
• Payment date	25 March 2020
Payment date for IAGPD and IAGFB quarterly distributions	16 March 2020
Investor Day (Sydney)	14 May 2020*
Payment date for IAGPD and IAGFB quarterly distributions	15 June 2020
Closing date for receipt of nominations for IAG Board	6 August 2020
Announcement of full year results to 30 June 2020	7 August 2020*
Final dividend – ordinary shares	
• Ex-dividend date	17 August 2020*
• Record date	18 August 2020*
• DRP record date	19 August 2020*
• Payment date	24 September 2020*
Payment date for IAGPD and IAGFB quarterly distributions	15 September 2020
Annual General Meeting	23 October 2020
Payment date for IAGPD and IAGFB quarterly distributions	15 December 2020
Announcement of half year results to 31 December 2020	10 February 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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