Financial results

Half year ended **31 December 2019**

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Managing Director and Chief Executive Officer

Nick Hawkins
Chief Financial Officer

12 February 2020

This release has been authorised by the IAG Board

Overview

1H20 highlights

Strong underlying performance, in line with expectations held at outset of year

Underlying performance in line with expectations

- GWP growth of 1.4% (like-for-like ~2.5%)
- Underlying margin of 16.9% – 70bps improvement vs. 1H19
- Solid performance in Australia
- Strong performance in New Zealand
- Adverse impact of lower interest rates on investment income
- Optimisation program benefits accruing as planned
- Partial regulatory and compliance cost offset

Lower reported margin

- Impact of bushfires
- Lower than anticipated reserve releases

Provision for customer refunds

- $82m net post-tax cost, excluded from cash earnings

Agreed sale of India

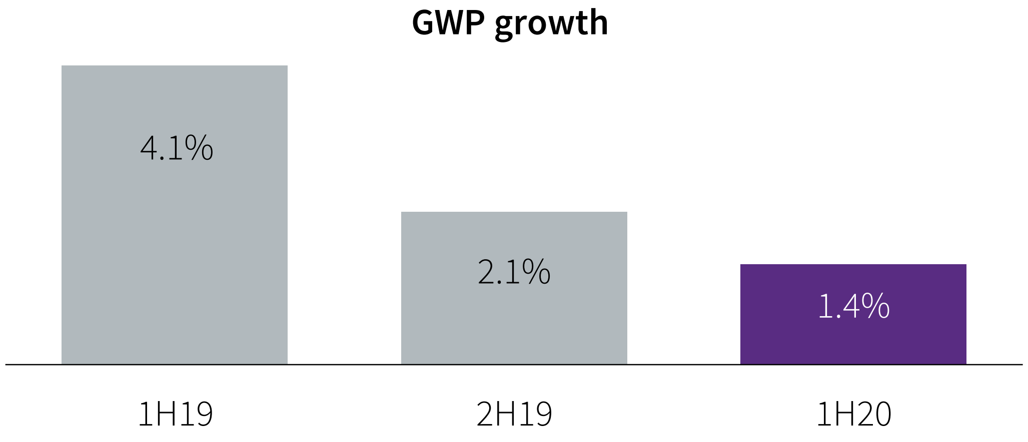
- Expected to complete in 2H20
- Significant profit on sale (to be recognised in 2H20) and regulatory capital impact expected

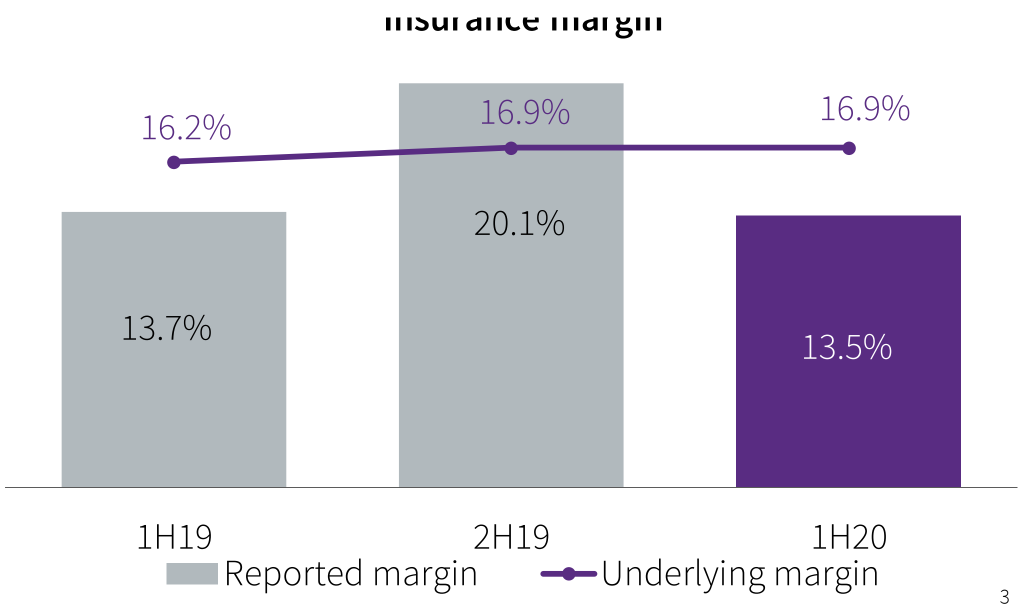
Strong capital position

- Above CET1 benchmark
- Interim dividend of 10 cents per share (70% franked) – 61% of cash earnings

FY20 guidance

- ‘Low single digit’ GWP growth reaffirmed
- Reported margin range reduced to 12.5-14.5% – peril and reserve release effects





Operational scorecard

Range of activities linked to three strategic priorities

	1H20 activities	2H20 priorities
Customer	• **Marketing campaigns** launched to positive response: NRMA Insurance, *Every home is worth protecting*, and CGU small business, *Ambition* • Launch of **Safer Journeys crash detection and emergency response service** trial, to 100,000 NRMA Insurance customers • Support of Rural Fire Service bushfire efforts, via the fire retardant gel-equipped **NRMA Insurance helicopter**	• Supporting customers and communities in their rapid **recovery from recent bushfire and hailstorm events** • **Integration of** the recently-acquired **MotorServe** business, within the motor repair model, providing a one-stop-shop for repairs and servicing • Expansion of **Carbar**, the digital car-trading and subscription platform, to respond to customer appetite for alternative forms of vehicle ownership
Simplification	• **Enhancement of short tail claims processes** following claims system consolidation • Continued planning of **policy and pricing systems consolidation** • **Development of Repairhub** motor repair joint venture to improve efficiency of repairs	• Progress **policy and pricing systems consolidation** with first major release expected in 1H21 • Completion of the design work for **upgrade of digital finance system** (SAP) across Australia and New Zealand • Further **geographic expansion of Repairhub** motor repair joint venture
Agility	• Ongoing **'Listen Learn Act' program**, empowering frontline employees to identify and address customer pain points and process improvements • Introduction of new **risk target operating model** to uplift risk management capability and capacity • Phase 1 rollout of Employee Central, to **simplify people systems into a single platform**	• Launch of **new culture program** to underpin next era of IAG's purpose-led strategy • Continued delivery of **enhanced risk management** maturity across IAG • Continue **harmonisation of people systems and processes**, for a consistent cross-Tasman people experience

Financials

Financial summary

Cash ROE of 12.1%

	1H19	1H20	Change
GWP ($m)	5,881	5,962	1.4% ▲
Insurance profit* ($m)	496	501	1.0% ▲
Underlying insurance margin (%)	16.2	16.9	70bps ▲
Reported insurance margin (%)	13.7	13.5	20bps ▼
Shareholders' funds income ($m)	(7)	50	nm ▲
Net profit after tax ($m)	500	283	43.4% ▼
Diluted cash EPS (cps)	13.4	16.0	19.3% ▲
Dividend (cps)	12.0	10.0	16.7% ▼
Cash ROE (%)	9.8	12.1	230bps ▲
CET1 multiple	1.18	1.15	3bps ▼

*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 the Investor Report 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.

GWP growth

Largely rate-driven

Reported GWP growth of 1.4%

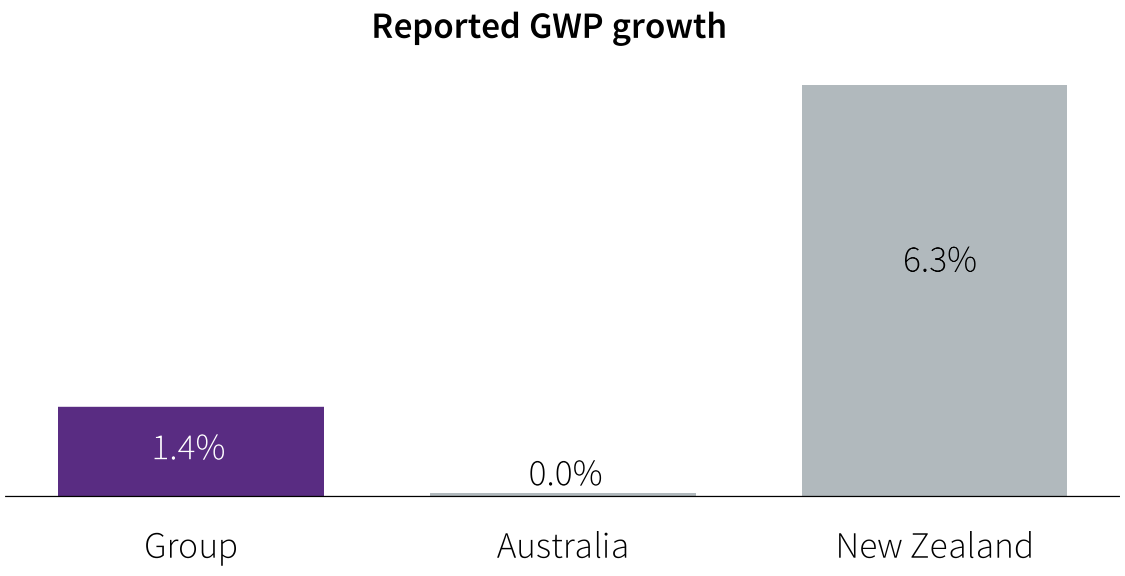
- In line with full year guidance of 'low single digit' growth
- Net drag from combination of:
  - Divested/ceased business ($54m)
  - Lower CTP rates – scheme change
  - Favourable FX translation effect

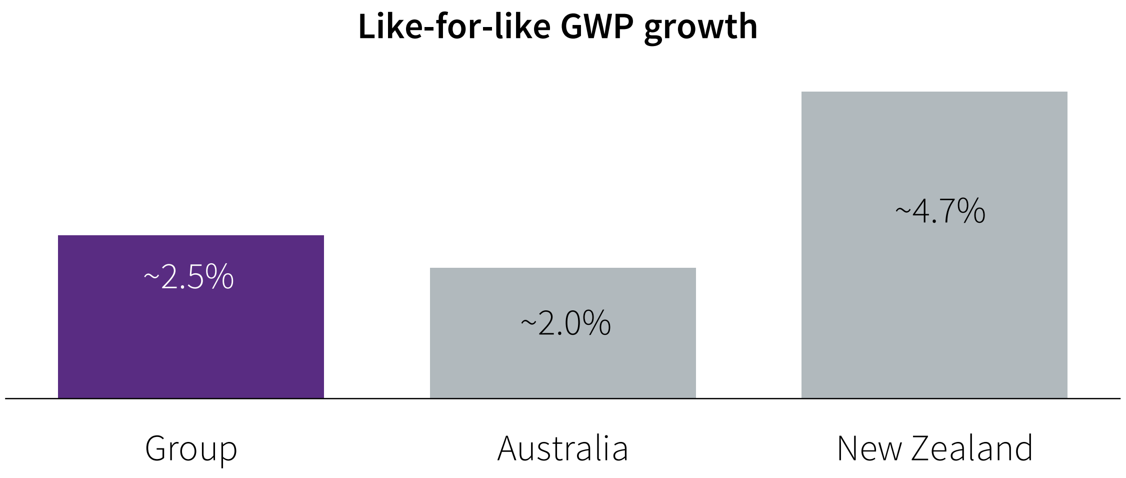
Like-for-like GWP growth of ~2.5%

- Short tail personal line rate increases broadly matching claims inflation
- Ongoing commercial rate increases
- Modest growth in personal line volumes, skewed to New Zealand
- Lower commercial line volumes, driven by Australia

FY20 guidance of 'low single digit' GWP growth reaffirmed

- 2H20 growth expected to be similar to 1H20, from amalgam of:
  - Rate increases across short tail personal lines
  - Modest personal line volume gain
  - Further commercial rate rises
  - Lower commercial volumes, including business exit effects
  - Lower CTP GWP from cumulative scheme change-induced pricing





Insurance margin

Underlying improvement vs. 1H19

Higher underlying margin of 16.9%

- Further realisation of net benefits from optimisation program
  - ~$80m achieved out of indicated $160m expectation for FY20
  - Large portion recognised in claims handling expenses in 1H20
- Partial offset of $20m from increased regulatory and compliance costs
- Investment yield headwind of ~70bps from lower interest rates
- Higher Australian commercial line profitability – cumulative rate increases and remediation
- Small drag from reversion to more normal working claim frequency in New Zealand

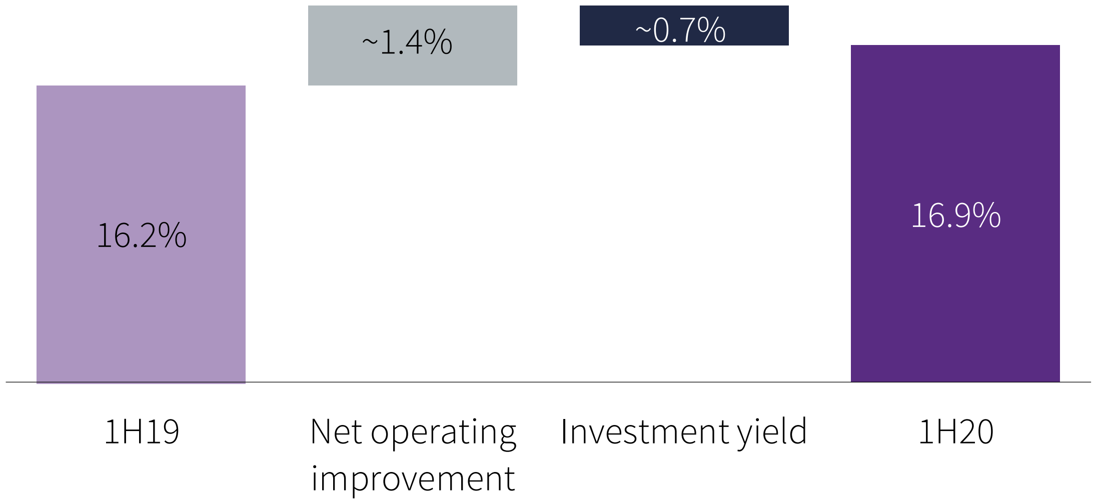
Lower reported margin of 13.5%

- Reconciliation to underlying margin:
  - High perils incidence, in excess of allowance by 2.7% of net earned premium (NEP)
  - Lower than anticipated prior period reserve releases (0.1% of NEP vs. 1.0% underlying assumption)
  - Minor positive credit spread impact

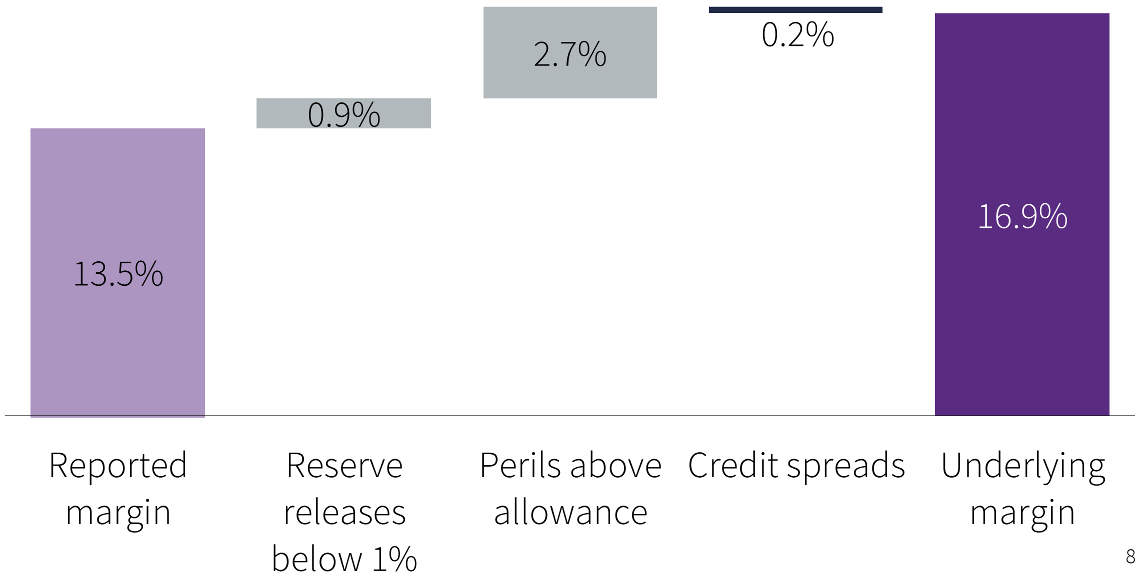
FY20 reported margin guidance range lowered to 12.5-14.5%

- 150bps reduction, as advised on 24 January 2020, sourced from:
  - Lower reserve release assumption of 0.5% of NEP (vs. 1.0%)
  - Increased net natural peril claim cost assumption of $715m (vs. $641m)
- Further 200bps reduction to reflect heavy rain event – perils assumption raised to $850m

Underlying margin



1H20 - reported vs. underlying margin



Reserve releases

1% of NEP run rate expected in 2H20

Lower than anticipated 1H20 net prior period reserve releases (0.1% of NEP)

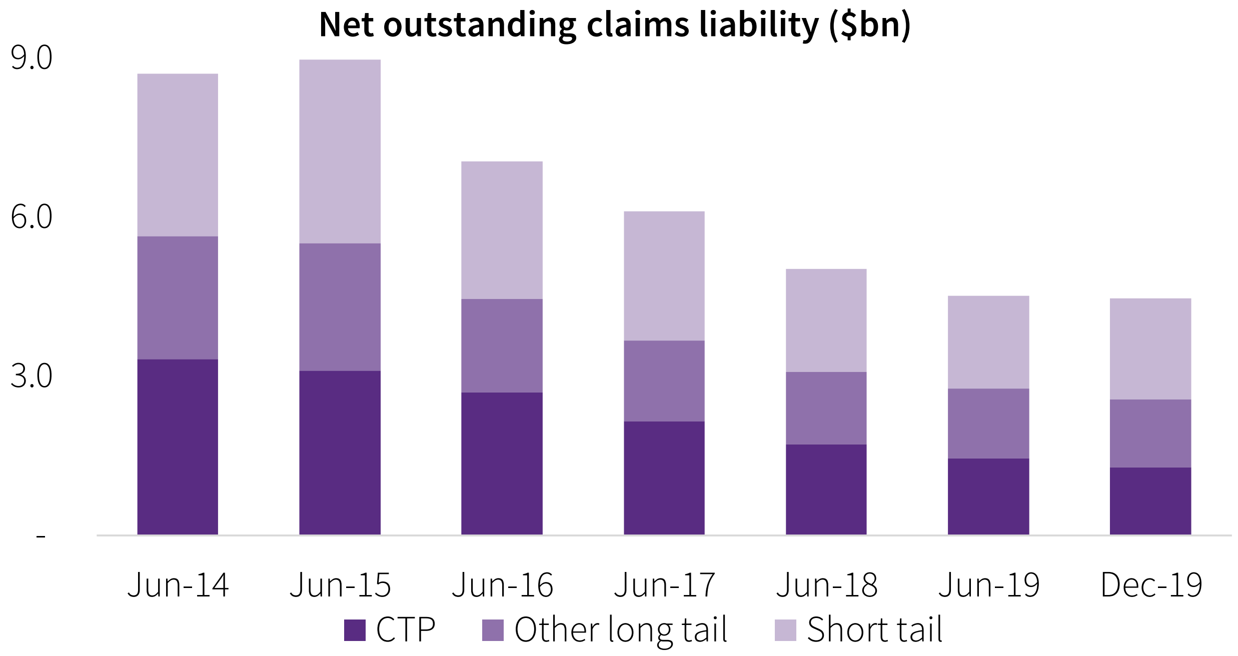
- Stronger claim development and emergence of large claims compared to recent years, across:
  - ACT and South Australian CTP schemes
  - Professional risks-related portfolios in pre-2017 report years
  - Workers' compensation, largely from one substantial claim
- An offset from professional indemnity earthquake-related releases in New Zealand
- Lower NSW CTP releases in line with expectations – capped profitability of new scheme

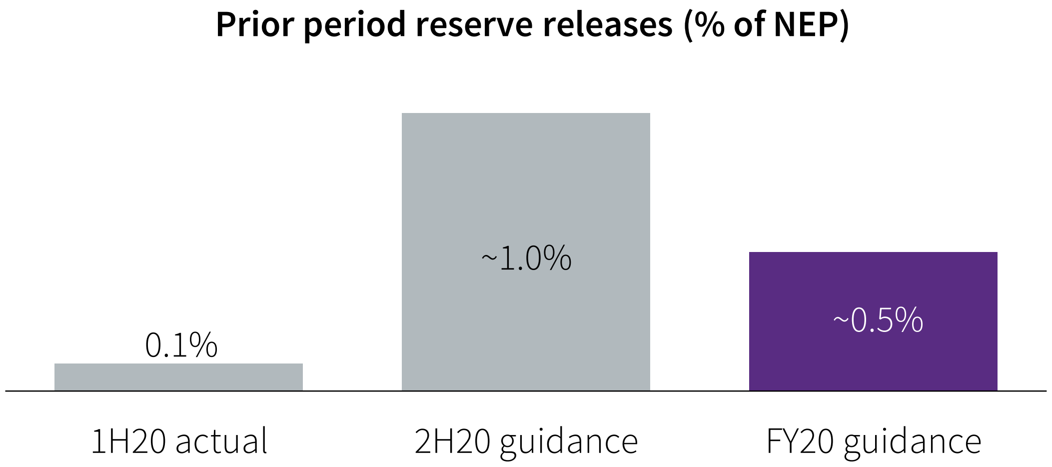
Significant reduction in net claim reserves since FY14

- ~55% reduction in net long tail claims liability (CTP ~61% reduction), from combined effect of:
  - CTP-specific quota share
  - Whole-of-account quota shares
  - Significant past reserve releases
  - Reinsurance of asbestos portfolio
  - Lower market share in NSW CTP
  - Greater claims certainty post NSW CTP reform

Reduced FY20 guidance assumption of 0.5% of NEP

- Assumes 2H20 run rate of up to 1% of NEP





Natural perils

FY20 net perils assumption increased to $850m

1H20 perils ~$100m above allowance

- Severely impacted by bushfire events (over $180m)
- Significant reinsurance recoveries, including ~$280m under calendar 2019 aggregate cover

Increased FY20 net perils expectation of $850m

- Year-to-date net cost of $645m until end of January 2020, including mid-January hailstorm event
- Net claim cost of $135m for February 2020 heavy rain event
- Estimate for five months to 30 June 2020 (excluding heavy rain event) based on 5-year average for gross (pre-quota share) events <$100m
- FY20 stop-loss cover providing post-quota share protection of $101m xs $675m
- No allowance for further gross events >$100m

Current maximum event retention (MER) of ~$50m

- Aggregate cover deductible eroded

FY20 net natural perils estimate

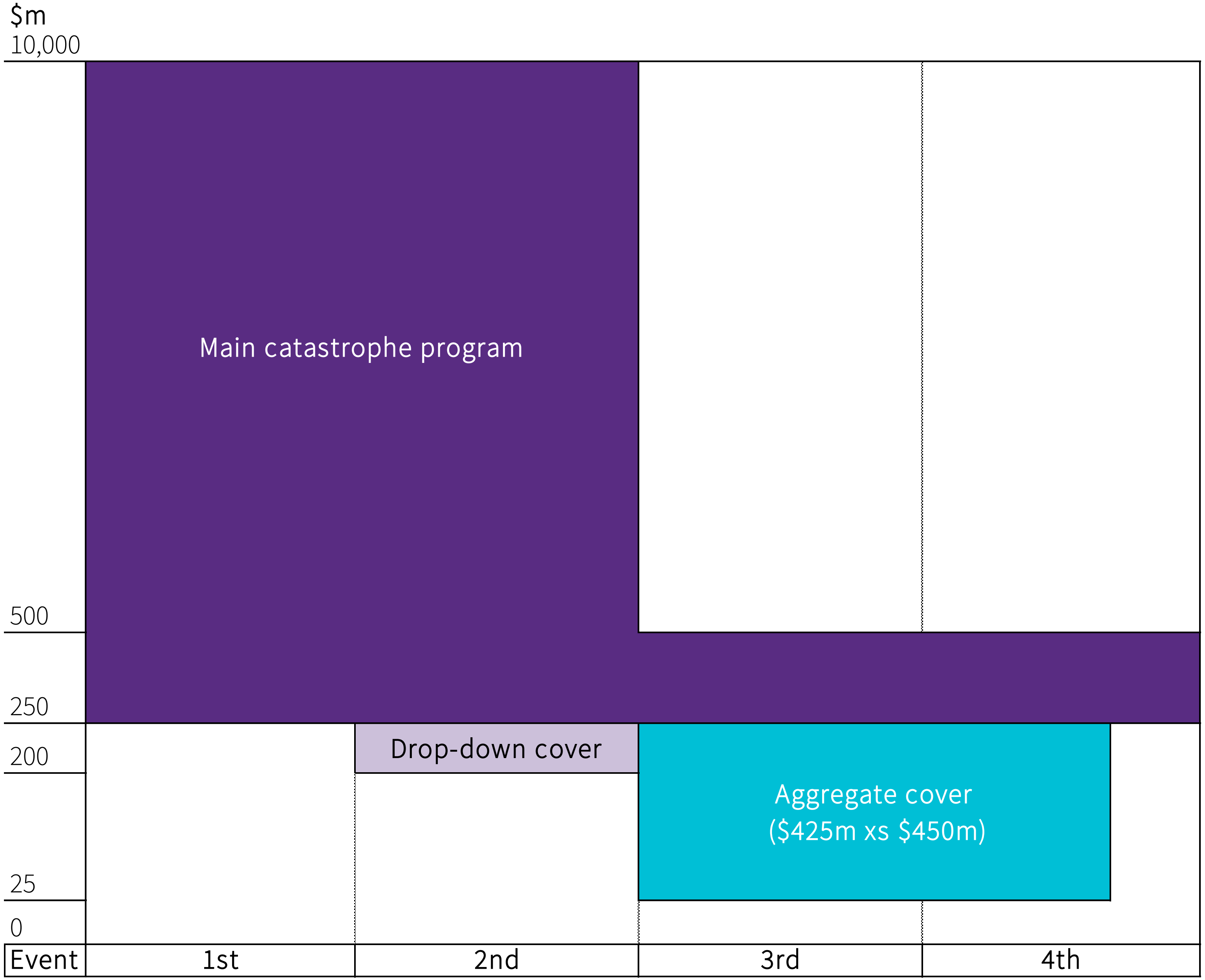
Reinsurance

Main catastrophe cover renewed 1 January 2020

Calendar 2020 catastrophe renewal

- Similar structure to prior years
- Increased gross protection of $10bn – provides additional comfort above modelled exposure
- Placed to 67.5% to reflect cumulative quota share position
- Relatively stable reinsurance rates during renewal process
- MER of $250m at 1 January 2020 ($169m post-quota share)
- Second event MER reduced to $200m by $50m drop-down cover ($135m post-quota share)

Calendar 2020 gross catastrophe reinsurance program - as at 1 January 2020



Expenses

Optimisation benefits delivered

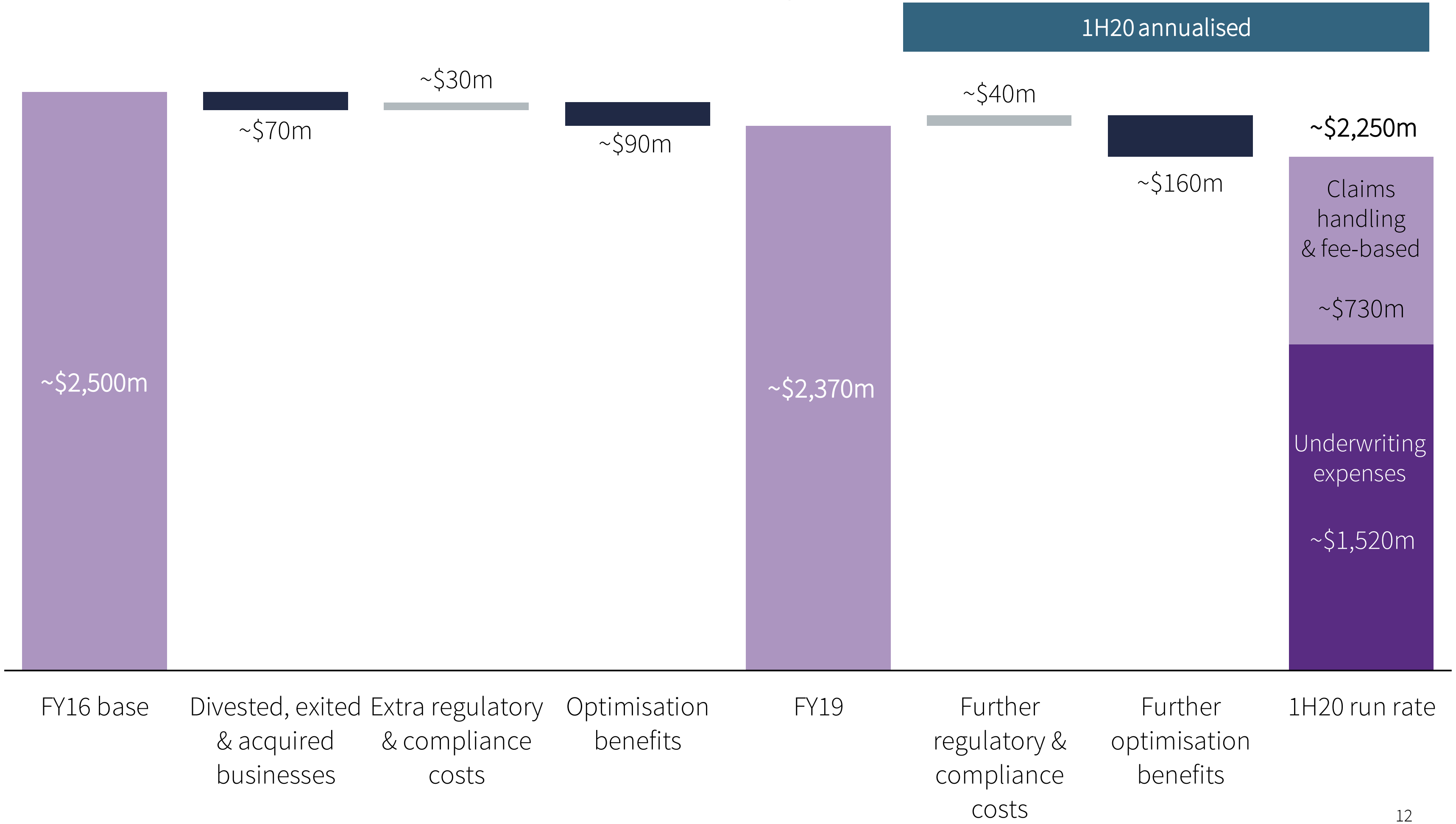
Optimisation program tracking to plan

- ~$80m reduction in gross operating costs in 1H20 vs. 1H19
- Majority of 1H20 improvement in claims handling expenses
- On target to achieve ~$250m cumulative reduction in FY20

Partial offset from higher regulatory and compliance costs

- ~$20m extra cost in 1H20 vs. 1H19
- FY20 increment of $50m vs. FY19 expected
  - Investment in risk-related systems and resources
  - Increased regulatory requirements

Gross operating costs



Australia

Improved underlying performance vs. 1H19

Like-for-like GWP growth of around 2%

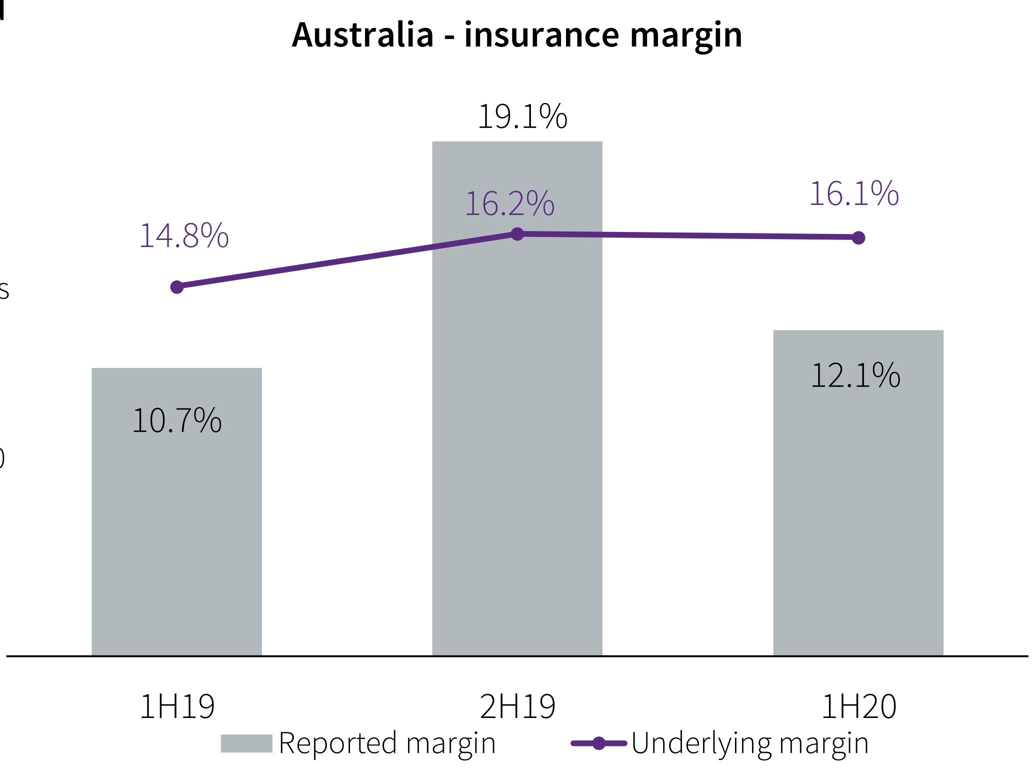
- Flat reported growth
- Rate-driven growth of 3-4% in short tail personal lines
  - Volume gain in Victoria
- 8.8% reduction in CTP GWP
  - Scheme change impacts on pricing
- Commercial GWP 4.5% lower (like-for-like -0.7%)
  - ~5.5% average rate increases
  - Like-for-like volumes ~6% lower
  - $54m effect from business exits (underwriting agency divestments, fleet leasing)

Higher underlying margin of 16.1% compared to 1H19

- Further optimisation benefits, partially offset by higher regulatory costs
- Earn through of commercial rate increases, in excess of claims inflation
- Increased average claims cost in home
- Impact of lower interest rates on investment income
- Reported margin of 12.1%
  - Natural perils over $80m above allowance owing to bushfire events
  - Modest net reserve strengthening

Solid performance expected in 2H20

- GWP trends similar to 1H20
  - Continued rate increases across commercial and short tail personal lines
  - Drag from lower CTP rates and impact of divested businesses
- Underlying profitability broadly maintained at 1H20 level



New Zealand

Strong performance maintained

NZ$ GWP growth of 4.2%

- Predominantly rate-driven
- Volume growth in private and commercial motor
- Business GWP growth >8%
  - Rate increases >5%
  - Improved retention
  - Strong new business volumes – commercial motor and liability
- Consumer GWP growth of over 1%, led by AMI brand
  - Absorbed ~100bps adverse effect from Earthquake Commission changes
- >200bps favourable FX translation effect – reported GWP growth of 6.3%

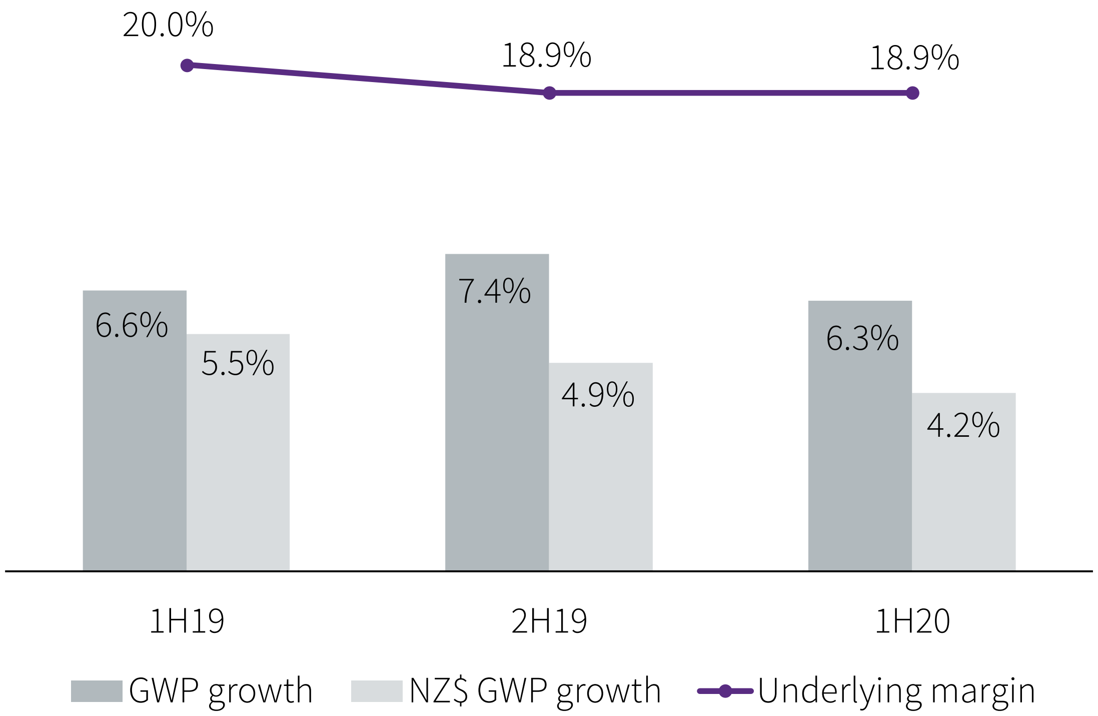
Lower 1H20 underlying margin compared to 1H19

- Largely reflected higher working and large claim experience
  - Abnormally benign conditions in 1H19
- Lower reported margin of 18.9% (1H19: 24.9%)
  - Large Canterbury hailstorm event
  - Partial offset from increased reserve releases

Strong performance expected in 2H20

- Solid GWP growth from a mixture of rate and volume
- Broad maintenance of underlying margin

New Zealand - GWP growth / underlying margin



Fee income

FY20 loss of up to $50m pre-tax expected

Increased fee-based income loss expected in FY20

- Accelerated spend on:
  - Investments in areas of data, artificial intelligence and innovation
  - Associated businesses IAG is developing

1H20 fee-based loss of $2m pre-tax (1H19: $5m profit), comprising:

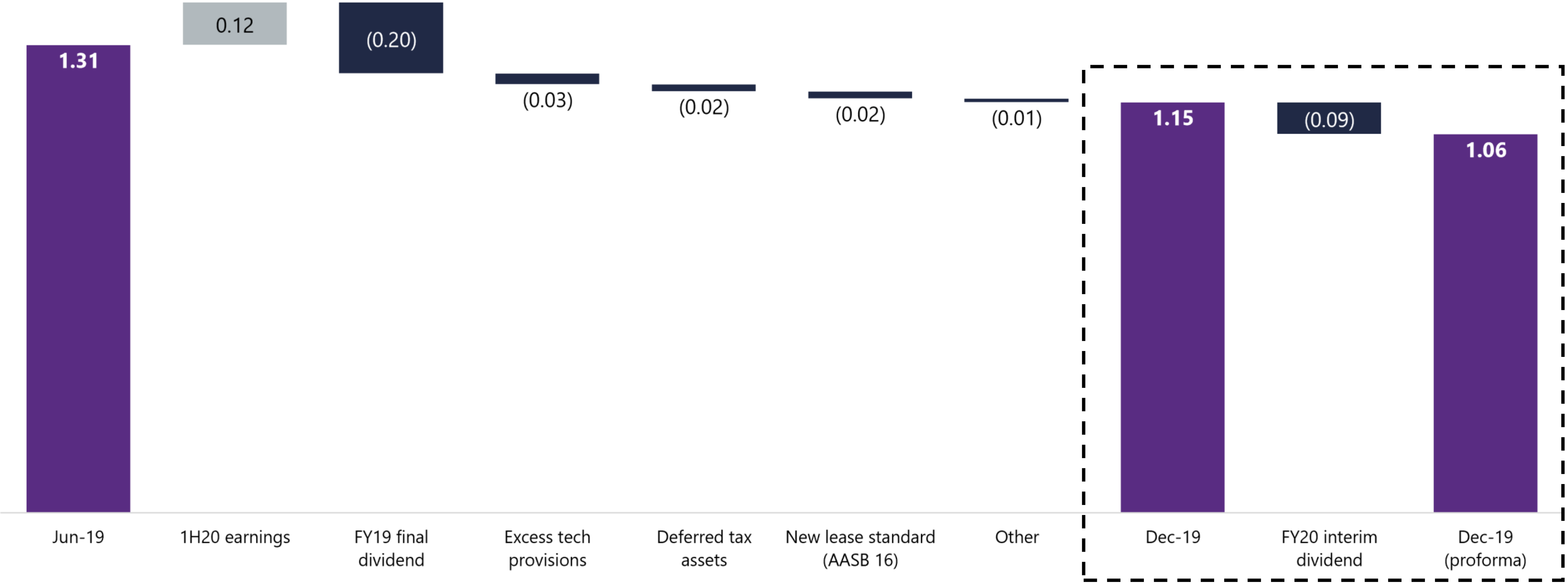
- $8m profit from agency role in Victorian workers' compensation scheme
- $10m loss from investment in new businesses including:
  - Mobility initiatives, including trials of Safer Journeys crash detection and response service
  - Initial loss from the Carbar digital car-trading platform business (51%-owned)
  - Small loss from Ambiata, the specialist data activation business
  - Net costs from Firemark Labs innovation hubs

Increased loss in 2H20 expected, reflecting:

- Absence of prior period income in Victorian workers' compensation agency business (skewed to 1H)
- Increased new business spend, including:
  - Scaling existing investments currently in early customer testing phases
  - New mobility services, including acceleration of Carbar development and full launch of Safer Journeys
  - Increased investment in customer identity and consent functionality
  - Next wave of investment in new business opportunities

Capital

Strong capital position

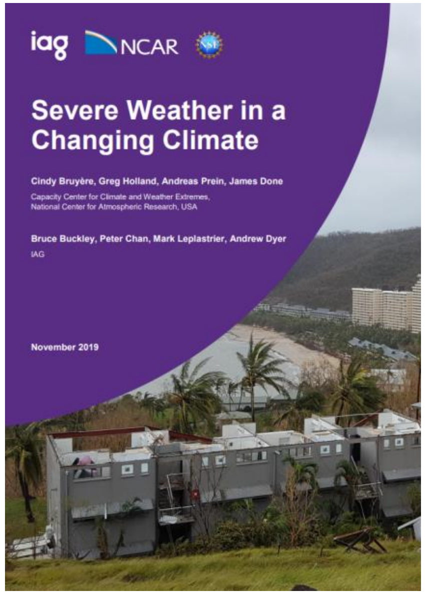


Outlook

Climate Action Plan

Delivering against plan

Think big



Prepare our people

Climate change considerations incorporated into key leadership programs

Reduce our emissions

On track to achieve Science Based Targets for scope 1 and 2 emissions: 20% reduction by end of FY20

Invest responsibly

Shifting investment to companies that have a lower exposure to climate-related risks or a forward-looking strategy to manage those risks

Rethink risk

Climate Risk and Opportunity Program addressing physical and transitional risks across all aspects of IAG's operations

FY20 outlook

GWP guidance reaffirmed, reported margin guidance lowered for peril and reserve release effects

FY20 guidance measures

GWP growth
Low single digit

Reported insurance margin
12.5-14.5%

Underlying assumptions

1. Net losses from natural perils of $850m
2. Reserve releases of around 0.5% of NEP
3. No material movement in foreign exchange rates or investment markets in 2H20

GWP growth guidance of ‘low single digit’

2H20 expected to feature:

- Short tail personal line rate increases to counter claims inflation pressures
- Modest personal lines volume growth
- Further average rate increases in commercial classes
- Lower Australian commercial volumes, including business exit effects
- Reduced CTP GWP from cumulative price response to scheme change

Reported insurance margin guidance of 12.5-14.5%

2H20 expected to feature:

- Strong underlying performance, including realisation of balance of targeted optimisation benefits
- Some further offset from higher regulatory and compliance costs

Fee-based business

- Increased pre-tax loss from accelerated investment in data, artificial intelligence and innovation technologies, and associated new businesses – up to $50m for FY20

Our value proposition

Delivering strong shareholder returns

Investment case

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

Value drivers

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

Shareholder value

Through-the-cycle targets

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

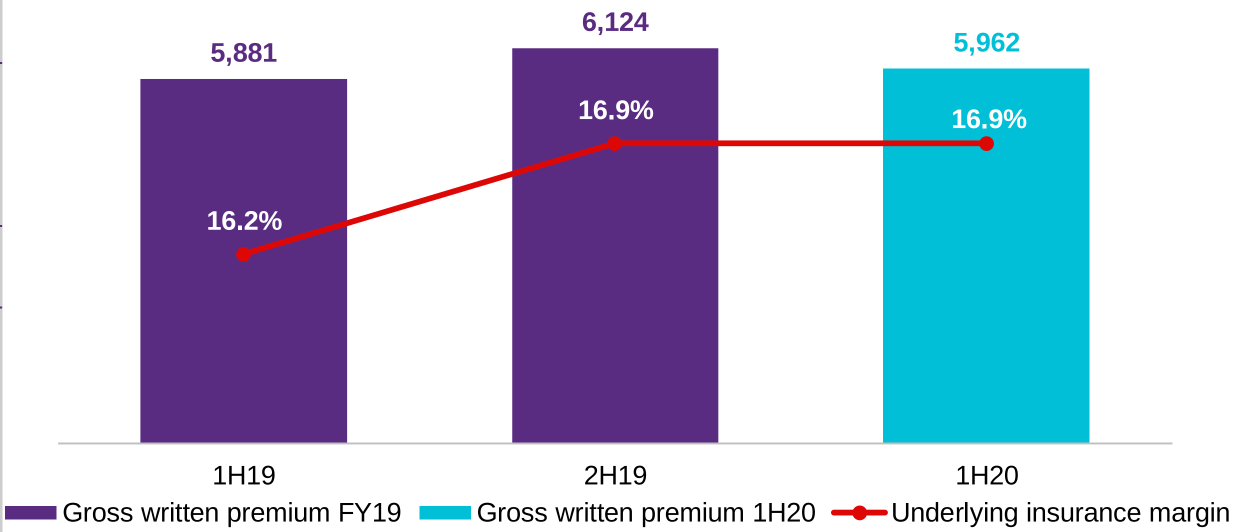
Australia

New Zealand

Appendix – Group results

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**

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



Appendix – Group ratios and key metrics

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%**

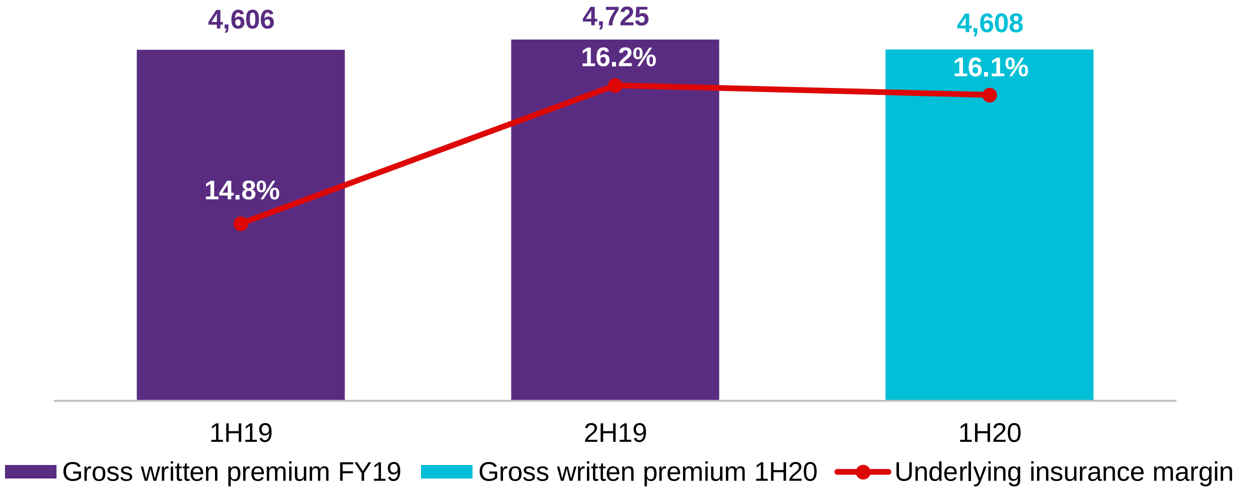
Key Financial Metrics (Total Operations)	1H19	2H19	1H20
Reported ROE (average equity) (% pa)	15.4%	18.4%	9.0%
Cash ROE (average equity) (% pa)	**9.8%**	**19.6%**	**12.1%**
Basic EPS (cents)	21.31	24.99	12.28
Diluted EPS (cents)	20.48	24.16	12.16
Cash EPS (cents)	13.60	26.56	16.49
Diluted cash EPS (cents)	**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

Appendix – Australia

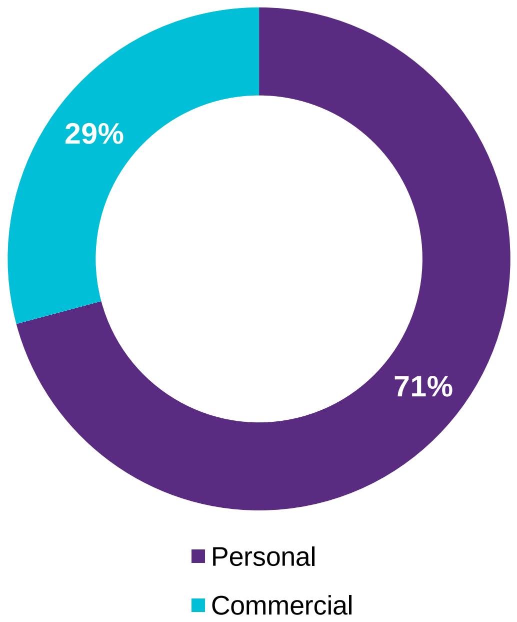
AUSTRALIA RESULTS	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**4,606**	**4,725**	**4,608**
Gross earned premium	4,698	4,625	4,739
Reinsurance expense	(1,864)	(1,807)	(1,859)
Net earned premium	**2,834**	**2,818**	**2,880**
Net claims expense	(1,943)	(1,821)	(1,940)
Commission expense	(239)	(251)	(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/(loss) 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%

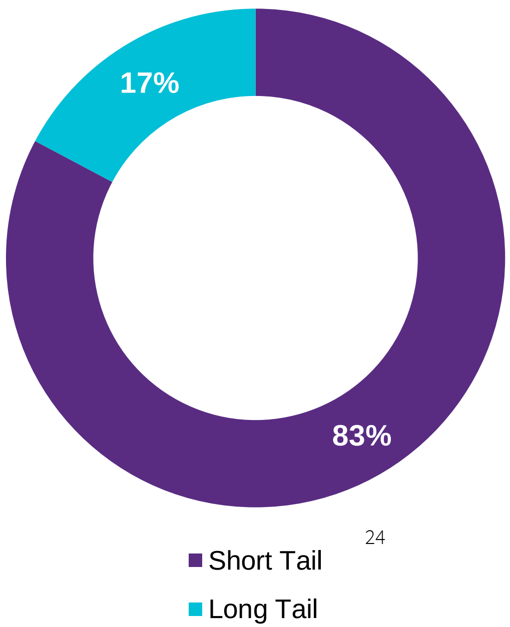
GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



1H20 GWP BY SEGMENT



1H20 GWP BY TAIL

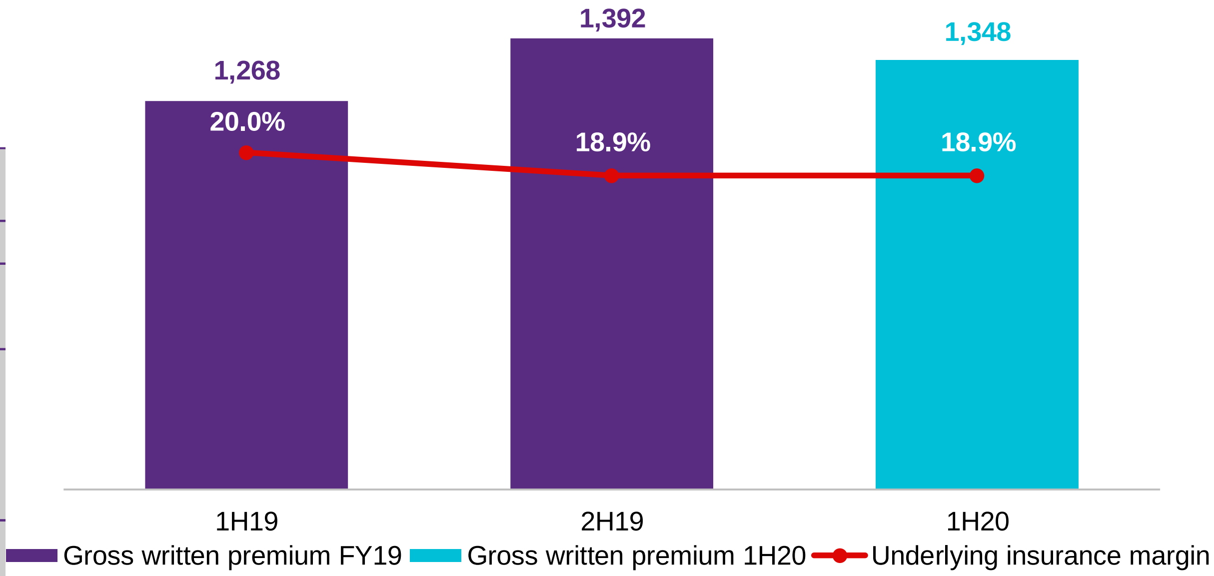


Appendix – New Zealand

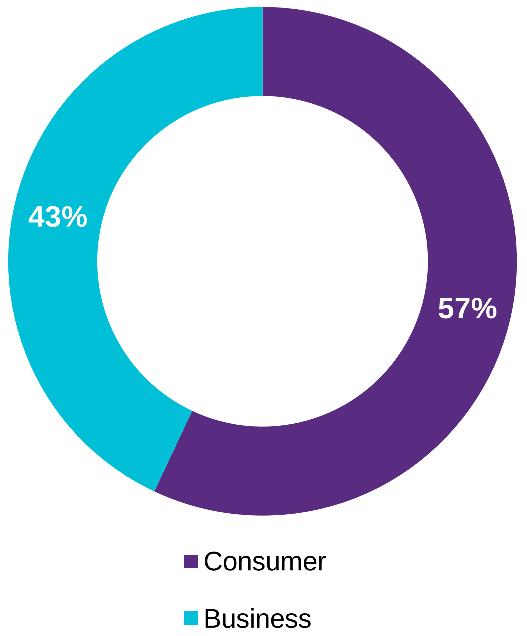
NEW ZEALAND RESULTS	1H19 A$m	2H19 A$m	1H20 A$m
Gross written premium	**1,268**	**1,392**	**1,348**
Gross earned premium	1,277	1,327	1,357
Reinsurance expense	(503)	(520)	(533)
Net earned premium	**774**	**807**	**824**
Net claims expense	(411)	(435)	(485)
Commission expense	(81)	(98)	(90)
Underwriting 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%

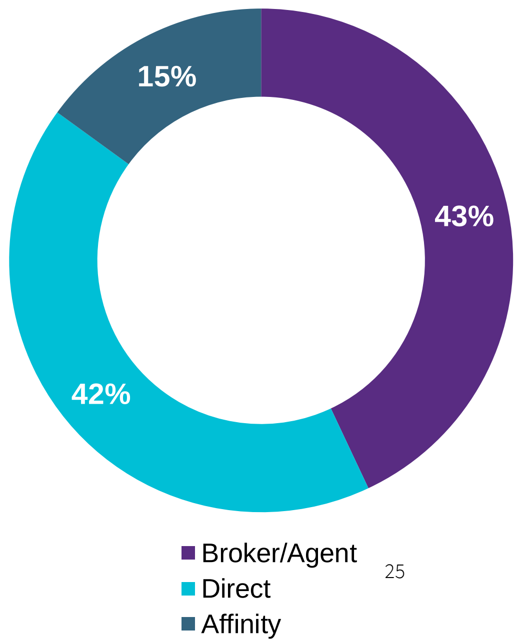
GWP ($M) / UNDERLYING INSURANCE MARGIN (%)



1H20 GWP BY CLASS



1H20 GWP BY CHANNEL



Important information

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