



# Investor report FY20

7 August 2020

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# IMPORTANT INFORMATION

This report contains general information current as at 7 August 2020 and is not a recommendation or advice in relation to Insurance Australia Group Limited (IAG) or any product or service offered by IAG's subsidiaries. It presents financial information on both a statutory basis (prepared in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis. This report is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction.

The report should not be relied upon as advice as it does not take into account the financial situation, investment objectives or particular needs of any person. The report should be read in conjunction with IAG's other periodic and continuous disclosure announcements filed with the Australian Securities Exchange (available at [www.iag.com.au](http://www.iag.com.au)) and investors should consult their own professional advisers.

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

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

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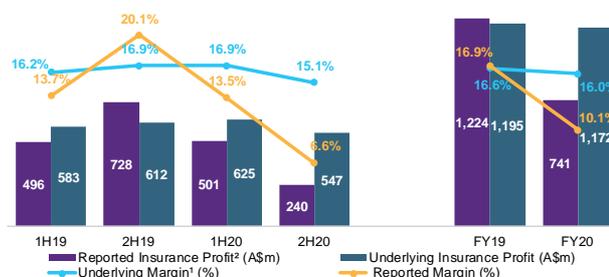
# FY20 RESULTS

KEY RESULTS	FY19 A\$m	1H20 A\$m	2H20 A\$m	FY20 A\$m	FY20 vs FY19 Mvt
<b>Gross written premium (GWP)</b>	<b>12,005</b>	<b>5,962</b>	<b>6,173</b>	<b>12,135</b>	<b>+1.1%</b>
Net earned premium (NEP)	7,238	3,709	3,654	7,363	+1.7%
<b>Insurance profit</b>	<b>1,224</b>	<b>501</b>	<b>240</b>	<b>741</b>	<b>-39.5%</b>
Net profit after tax (NPAT)	1,076	283	152	435	-59.6%
<b>Cash earnings</b>	<b>931</b>	<b>380</b>	<b>(101)</b>	<b>279</b>	<b>-70.0%</b>
Reported insurance margin	16.9%	13.5%	6.6%	10.1%	-680bps
<b>Underlying insurance margin<sup>1</sup></b>	<b>16.6%</b>	<b>16.9%</b>	<b>15.1%</b>	<b>16.0%</b>	<b>-60bps</b>
Diluted EPS (cents)	44.58	12.16	6.38	18.49	-58.5%
Diluted cash EPS (cents)	38.83	15.98	(4.37)	12.12	-68.8%
Cash return on equity (ROE)	14.4%	12.1%	(3.3%)	4.5%	-990bps
<b>Dividend (cents per share)</b>	<b>32.0</b>	<b>10.0</b>	<b>0.0</b>	<b>10.00</b>	<b>-68.8%</b>
Common Equity Tier 1 Capital (CET1) multiple	1.31	1.15	1.23	1.23	-8bps

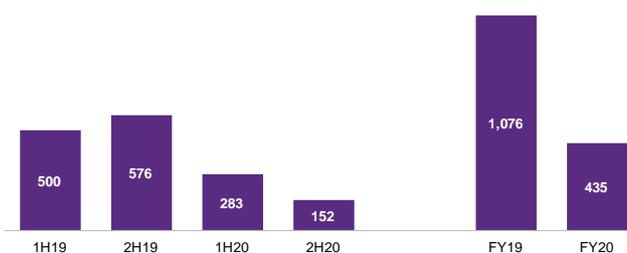
## GWP GROWTH



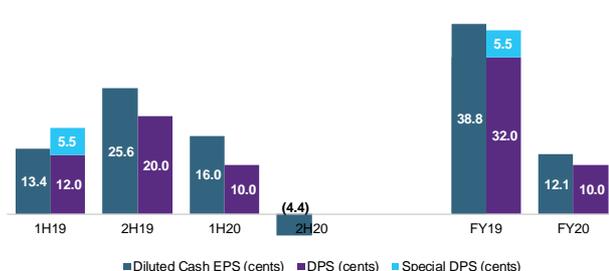
## INSURANCE PROFIT & MARGIN



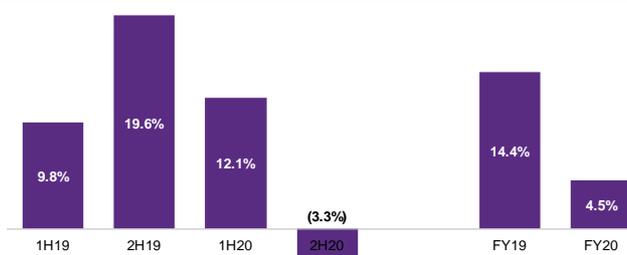
## NET PROFIT AFTER TAX (A\$m)



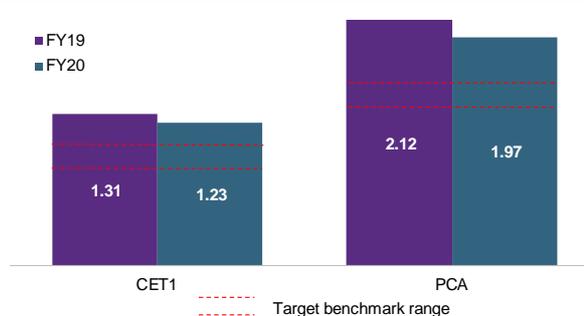
## DILUTED CASH EPS & DPS



## CASH ROE



## REGULATORY CAPITAL (MULTIPLE)



<sup>1</sup>IAG defines its underlying insurance margin as the reported insurance margin adjusted for:

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

From FY21, IAG is including zero allowance for reserve releases in its underlying margin definition based on its view of future reserve movements.

<sup>2</sup>The FY20 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 FY20 Financial Report (Appendix 4E). A reconciliation between the two is provided on page 15 of this document and on page 7 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's FY20 net profit after tax is the same in this document and in the Financial Report.

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# 1. EXECUTIVE SUMMARY

## GROUP HIGHLIGHTS (VS. FY19)

- Resilient business performance after a challenging 2H20
- Gross written premium (GWP) growth of 1.1%, in line with full year guidance – modestly negative COVID-19 impact
- Largely offsetting COVID-19 impacts on 2H20 underwriting profit
- 2H20 net claim benefit (primarily from motor frequency) offset by COVID-19-related higher operating expenses and ~\$100m provision for potential claim costs
- Lower underlying insurance margin (ex-COVID-19) in 2H20 from weaker investment returns, higher reinsurance costs and a deterioration in performance in Australian long tail commercial lines
- Lower reported insurance margin of 10.1% owing to adverse peril, prior period reserving and credit spread effects
- ~\$400m adverse turnaround in shareholders' funds income contribution vs. FY19, following extreme investment market volatility in 2H20
- Net profit after tax of \$326m realised on sale of interest in SBI General Insurance Company (SBI General)
- Post-tax provision for customer pricing issue increased to \$141m (1H20: \$82m)
- No final dividend – interim payment of 10 cents per share slightly exceeds full year payout policy of 60-80% of cash earnings
- Common Equity Tier 1 (CET1) ratio of 1.23, above targeted range
- FY21 outlook subject to unusual degree of uncertainty

## FY20 OVERVIEW

FY20 was a tale of two distinct halves. While IAG's underlying operating performance in 1H20 was strong and broadly in line with expectations, the second half saw high natural peril activity, a deterioration in long tail reserving in Australia, extreme volatility in investment market impacts and the added effect of COVID-19 influences on IAG's results.

FY20 GWP growth of 1.1% was in line with IAG's guidance of 'low single digit' growth which had been maintained since first being provided in August 2019. 2H20 GWP growth was 0.8% (1H20: 1.4%) and was reduced by an estimated adverse COVID-19 impact of ~\$80m, which lowered reported 2H20 growth by over 100 basis points (bps).

Excluding associated investment market volatility effects, IAG's underwriting profit has borne largely offsetting COVID-19 impacts in 2H20, comprising:

- An ~\$150m claims benefit driven by favourable motor claims frequency, with offsets from other COVID-19 affected portfolios, including travel and landlords' insurance;
- An ~\$100m provision in the claims line to reflect broader uncertainty over potential COVID-19 related claim costs, covering landlords', business interruption and other potential insurance class impacts; and
- Increased operating costs of approximately \$50m flowing from COVID-19-related measures or responses.

IAG's 2H20 underlying insurance margin was 15.1%, after including 1% for long-term reserve release expectations, and is nearly 200bps lower than the 1H20 outcome. The main contributory factors to this softening are:

- Increased reinsurance expenses, including those related to additional cover purchased in 2H20 following severe peril activity;
- A further headwind on investment returns from lower interest rates; and
- A deterioration in the performance of Australian long tail commercial portfolios.

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Challenging conditions in 2H20

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Lower 2H20 underlying margin of 15.1%

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# 1. EXECUTIVE SUMMARY

IAG's FY20 reported margin of 10.1% fell outside pre-existing guidance of 12.5-14.5%, with over 70bps (\$53m) of the shortfall attributable to the net widening of credit spreads since 31 December 2019. Other reconciling items are:

- A \$54m overrun against updated net natural peril claim cost expectations, following higher than anticipated attritional peril experience in the final quarter of the financial year; and
- An unexpected deterioration in prior period reserving at year-end, centred on Australian long tail classes.

Net profit after tax of \$435m was considerably lower than FY19 (\$1,076m), largely owing to:

- A nearly 40% decline in insurance profit, reflecting severe natural peril activity and adverse movements in prior period reserving and credit spread effects; and
- A greater than \$400m pre-tax adverse turnaround in shareholders' funds income, reflecting the volatile investment market conditions experienced in 2H20. Losses on shareholders' funds improved by approximately \$100m compared to the year-to-date position indicated as at the end of April 2020.

FY20's net profit after tax also includes:

- A net profit after tax of \$326m from the sale of IAG's 26% interest in SBI General in India, which was completed at the end of March 2020; and
- An increased net provision after tax of \$141m for customer refunds, \$82m of which was recognised in 1H20.

IAG has not declared a final dividend for FY20. Negative cash earnings of over \$100m in 2H20 meant the 10 cent interim dividend paid in March 2020 equated to nearly 83% of FY20 cash earnings, slightly in excess of IAG's full year payout policy of distributing 60-80% of cash earnings.

IAG's CET1 ratio at 30 June 2020 was 1.23 times its Prescribed Capital Amount (PCA), compared to a targeted range of 0.9-1.1 times.

## COVID-19 IMPACTS ON FY20 PERFORMANCE

The COVID-19 pandemic has had a range of effects on IAG's FY20 business and financial performance.

GWP is estimated to have been reduced by approximately \$80m, primarily from lower new business opportunities in the months of March to May. New business volumes have shown a recovery since the end of May and are now tracking close to pre-COVID levels in both Australia and New Zealand.

Business retention has held at high levels in all core portfolios, throughout.

Any COVID-19-influenced reduction in GWP will have had only a minor impact on IAG's insurance profit or net profit in FY20.

IAG's 2H20 underwriting profit has borne three largely offsetting COVID-19-related effects:

- An estimated net benefit of ~\$150m from reduced claim costs, comprising:
  - A significant benefit from lower motor claims frequency, particularly in April and May. Towards the end of FY20 a rebound in frequency was experienced as lockdown requirements generally eased, however there was a high degree of variability by Australian state; and
  - A partial offset from claims incurred in other COVID-19 affected business classes such as landlords' insurance and travel insurance;

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**\$326m net profit on sale of interest in SBI General**

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**Estimated adverse impact of ~\$80m on FY20 GWP from COVID-19**

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**Largely offsetting estimated COVID-19 impacts on underwriting profit**

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# 1. EXECUTIVE SUMMARY

- A provision of approximately \$100m for potential COVID-19 claim cost impacts that are highly uncertain, sit within a wide range and have been estimated on a probability-weighted basis. This accords with accounting requirements and spans potential business interruption, landlords' and other insurance class impacts, including the estimated impact an economic downturn will have on the settlement of long tail claims; and
- Increased costs of approximately \$50m flowing from COVID-19-related measures or responses, covering:
  - Additional operating expenses of approximately \$30m, mainly from moving employees to a 'working from home' basis; and
  - The decision, accelerated by the impact of COVID-19 on customer behaviours, to close the AMI branch network in New Zealand, at a cost in excess of \$20m.

All underwriting profit impacts are expressed on a post-quota share basis.

The approximately \$100m provision for potential COVID-19 claim cost impacts has been estimated on a probability-weighted basis and includes an allowance for possible business interruption claim exposure in Australia.

In addition, an approximately \$160m COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of IAG's regulatory capital position. This is not reflected in IAG's balance sheet at 30 June 2020.

Separately, the COVID-19 pandemic triggered extreme investment market volatility from late February onwards. This contributed to an adverse mark-to-market credit spread effect in IAG's 2H20 insurance profit of over \$50m and has driven a 2H20 loss of over \$230m from shareholders' funds income, predominantly from equity and alternative asset classes.

## GROSS WRITTEN PREMIUM (GWP)

A 1.1% increase in FY20 GWP, to \$12,135m, was in line with the 'low single digit growth' expectations held throughout the year. This comprised:

- Slightly higher (+0.4%) GWP of \$9,367m in Australia, with some improvement evident in 2H20, notwithstanding estimated modestly negative COVID-19 influences (~\$60m); and
- Reported GWP growth of 3.5% in New Zealand (local currency growth of 2.4%), to \$2,754m, led by commercial line volumes and commercial property and liability rates. COVID-19 is estimated to have had an adverse effect on 2H20 GWP of ~\$20m.

Overall GWP growth in 2H20 was 0.8%, compared to 1.4% in 1H20. Allowing for estimated adverse effects from COVID-19, as reflected in lower new business volumes, GWP growth in 2H20 would have exceeded 2%.

FY20 GWP growth also absorbed the adverse impact of business exits concluded in FY19, principally in the area of commercial underwriting agencies in Australia, and lower CTP rates stemming from scheme change.

## INSURANCE MARGIN

IAG's FY20 underlying insurance margin was 16.0%, compared to 16.6% in FY19. In two contrasting halves:

- The improved 1H20 underlying margin of 16.9% (1H19: 16.2%) 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; and

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Provision of ~\$100m for potential COVID-19 claim cost impacts

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GWP growth in line with FY20 guidance

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Lower underlying margin after softer 2H20 outcome

# 1. EXECUTIVE SUMMARY

- 2H20 delivered a softer underlying margin of 15.1% (2H19: 16.9%), principally owing to a deterioration in Australian commercial long tail loss ratios, higher reinsurance costs and a further headwind from lower interest rates on investment returns.

Short tail personal lines' underlying profitability remained relatively strong across FY20, as earned rate increases broadly matched average claim cost rises, while long tail CTP underlying profitability was similar to FY19, with both periods reflecting the capped profitability of the new scheme in NSW.

Commercial lines' underlying profitability held up well in New Zealand, while the performance of equivalent lines in Australia deteriorated in 2H20 owing to increased long tail loss ratios and remains hampered by poorly performing rural and agricultural portfolios.

IAG's reported margin of 10.1% was considerably lower than FY19 (16.9%). In addition to the underlying profitability movements identified above, this contained:

- A \$263m net natural peril claim cost overrun against original allowance, in a period of high perils activity, particularly in Australia, which saw severe bushfire incidence, a large hailstorm event in January and a major east coast low in early February. Higher than anticipated attritional peril experience in the final quarter of FY20 resulted in IAG exceeding its revised guidance of \$850m by \$54m;
- An adverse movement in net prior period reserving, where claim reserve development and large loss experience in Australian long tail classes contributed to a net strengthening of \$48m in FY20, compared to net releases of \$126m in FY19. 2H20 guidance of releases equivalent to 1% of NEP in that half was not met owing to year-end strengthening of liability, professional risk and workers' compensation reserves; and
- An unfavourable movement in credit spread impact of \$40m, following an adverse effect of over \$50m from the widening of spreads in volatile investment market conditions in 2H20.

Lower reported insurance margin, driven by adverse peril, reserving and credit spread effects

## DIVISIONAL HIGHLIGHTS

DIVISION	FY19				FY20			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported A\$m	Growth %	Reported %	Underlying %	Reported A\$m	Growth %	Reported %	Underlying %
Australia	9,331	2.0	14.9	15.5	9,367	0.4	7.3	14.9
New Zealand	2,660	7.0	24.7	19.5	2,754	3.5	20.2	18.6
Corporate & Other	14	nm	nm	nm	14	nm	nm	nm
<b>Total Group</b>	<b>12,005</b>	<b>3.1</b>	<b>16.9</b>	<b>16.6</b>	<b>12,135</b>	<b>1.1</b>	<b>10.1</b>	<b>16.0</b>

**Australia** (77% of GWP) produced GWP growth of 0.4%, after absorbing lower post-reform CTP rates and discontinued business impacts. Slightly higher growth of 0.7% was achieved in 2H20, after a modestly adverse COVID-19 impact. Australia's FY20 underlying margin was 14.9% (FY19: 15.5%), with a lower 2H20 underlying margin of 13.9% including a modestly negative net COVID-19 impact on underwriting profit, lower investment income owing to reduced interest rates and increased loss ratios in long tail commercial portfolios. A significantly lower reported margin of 7.3% reflected substantially adverse peril and prior period reserving movements.

Slightly stronger GWP growth from Australia in 2H20, as reported margin impacted by severe peril and reserve strengthening effects

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# 1. EXECUTIVE SUMMARY

**New Zealand** (23% of GWP) continued to perform strongly. Local currency GWP growth of 2.4% inflated to 3.5% after a favourable foreign exchange translation effect, with volume and rate increases in commercial classes driving much of the improvement. New Zealand's underlying margin was lower than FY19 but remained strong. A modest net positive effect from COVID-19 was recorded in 2H20 as benefits from a temporary reduction in motor claim frequency were offset by closure costs related to the AMI branch network. A lower reported margin incorporated significantly higher net natural peril claim costs, incurred mainly in 1H20.

## NET PROFIT AFTER TAX / ROE

Net profit after tax (NPAT) of \$435m was nearly 60% lower than FY19 (\$1,076m), from the combination of:

- A close to 40% reduction in pre-tax insurance profit to \$741m, primarily owing to a collective adverse movement in prior period reserving, natural peril and credit spread impacts of nearly \$500m;
- An adverse \$400m pre-tax movement in investment income on shareholders' funds, flowing from the volatile investment market conditions experienced in 2H20;
- A \$326m profit after tax on the sale of the interest in SBI General in India, compared to the greater than \$200m profit on the sale of the Thailand operations recognised in FY19; and
- Inclusion of a post-tax provision of \$141m for customer refunds relating to multi-year pricing issues.

Cash earnings of \$279m and diluted cash EPS of 12.12 cents were both around 70% lower than FY19. Reported return on equity (ROE) in FY20 was 7.0%, while cash ROE was 4.5%.

## PROVISION FOR CUSTOMER REFUNDS

In 1H20 IAG included a post-tax provision of \$82m for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This related 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.

This has been increased to \$141m post-tax for the full year to:

- Update the initial provision;
- Include further refund programs in respect of similar pricing issues; and
- Provide for additional administration costs identified in respect of the original issue.

The issues concerned were identified as part of a proactive review of pricing systems and processes, which is ongoing. The net provision is excluded from cash earnings for dividend calculation purposes. A related pre-tax and pre-non-controlling interest amount of \$246m (1H20: \$150m) is included in net corporate expense.

## REINSURANCE RENEWALS

IAG is transitioning its aggregate catastrophe reinsurance cover from a calendar year to a financial year basis, to avoid the intersection with peak period catastrophe activity which can disrupt the renewal process. As part of this process, IAG has purchased an additional aggregate cover for the 12 months to 30 June 2021, providing \$350m of protection in excess of \$400m (\$236m in excess of \$270m, post-quota share). This new protection will overlay the existing aggregate protection for the balance of calendar 2020.

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Solid commercial lines growth in New Zealand, alongside strong margin

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Significantly lower NPAT, reflecting peril, reserving and investment market impacts

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Customer refunds provision increased to \$141m post-tax to cover further issues

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Additional aggregate cover purchased, as part of transition to financial year basis

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# 1. EXECUTIVE SUMMARY

In addition, IAG has purchased a stop-loss protection for retained natural perils which runs in line with FY21. This provides protection of \$100m in excess of \$1.1bn (\$67m in excess of \$742m, post-quota share) for the 12 months to 30 June 2021.

## 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, including divestments where appropriate.

During FY20 IAG completed the sale of its 26% stake in SBI General in India (March 2020) and its Indonesian interests (September 2019).

IAG's 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 was \$441m at 30 June 2020;
- A 73.07% interest in AAA Assurance Corporation in Vietnam, which has a carrying value of \$19m; and
- A 16.9% interest in Bohai Property Insurance Company Ltd (Bohai) in China which is in the shareholders' funds investment portfolio with a carrying value of \$33m.

## DIVIDEND

The Board has determined to not declare a final dividend. This follows negative cash earnings of over \$100m in 2H20, which reduced full year cash earnings to \$279m.

Application of the top end of IAG's dividend policy, of distributing 60-80% of full year cash earnings, produces a figure slightly lower than the 10 cents per share interim dividend paid in March 2020. Based on that dividend alone, nearly 83% of IAG's FY20 cash earnings have already been distributed to shareholders.

As a result, IAG's full year dividend stands at 10 cents per share, compared to 32 cents in FY19.

## CAPITAL

At 30 June 2020 IAG's CET1 ratio was 1.23, comfortably above its target benchmark of 0.9-1.1.

IAG's debt to total tangible capitalisation ratio at 30 June 2020 was 32.2%, towards the lower end of its targeted 30-40% range.

During the year IAG redeemed the \$550m Reset Exchangeable Securities instrument. Subject to market conditions, IAG may issue a new Tier 2 instrument in FY21 to provide additional liquidity.

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

## CHIEF EXECUTIVE OFFICER (CEO)

On 8 April 2020, IAG announced that its CEO, Peter Harmer, had advised the Board of his intention to retire by the end of calendar 2020. It was also advised that a flexible nine-month period of transition had been agreed with Mr Harmer to ensure a smooth changeover, and that a search process was underway, encompassing both internal and external candidates. It remains IAG's expectation that a new CEO will be appointed during 1H21.

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Options for remaining Asian assets continue to be weighed up

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No final dividend – interim payment slightly above full year payout policy

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Capital position comfortably above benchmark

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# 1. EXECUTIVE SUMMARY

## FY21 OUTLOOK

There is considerable uncertainty attached to IAG's financial outlook for FY21, stemming from specific ongoing business impacts associated with the COVID-19 pandemic and from broader economic repercussions.

As a result, IAG has determined not to provide guidance for FY21. This decision will be reviewed periodically.

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No guidance provided for  
FY21 given highly  
uncertain outlook

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## 2. STRATEGY & CUSTOMER

### 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 meet the changing needs of its customers, become a more sustainable business over the long term and deliver stronger and more consistent returns for its shareholders.

Over the last four years, IAG has focused on three key areas:

- Gaining a **deeper and better understanding of its customers**;
- Delivering a **simpler more streamlined operating platform**; and
- Developing an **agile, adaptable workforce**.

With simplification continuing, IAG has increased its focus on customer engagement and longer-term growth. This includes:

- Delivering better insurance experiences to customers through enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation;
- 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; and
- Leveraging its assets – including data, customer reach and brands – to launch new businesses that complement these adjacent products and services.

IAG's objective is to grow the number of customers in its network of brands.

The progress IAG has made in the delivery of its strategy has positioned it to be well-placed to respond to the disrupted and uncertain operating environment that will be shaped by the COVID-19 pandemic, with strong momentum occurring across the initiatives that underpin its three key strategic priorities:

#### 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.

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IAG's purpose is 'to make your world a safer place'

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Three key areas of focus: customer, simplification and agility

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Strong momentum across three key strategic priorities

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## 2. STRATEGY & CUSTOMER

### 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.

### CUSTOMER EXPERIENCE

The roll out of IAG's **Customer Equity Framework** continued in FY20 with the establishment of the Family and Domestic Violence Policy for Australian customers, ensuring IAG staff are equipped to deal with customers experiencing family and domestic violence. This is a key requirement of the General Insurance Code of Practice. The Family and Domestic Violence Policy will be applied to IAG's New Zealand business in FY21.

In light of COVID-19, the **Customer Connections program** was expanded to include digitally-enabled virtual sessions. These sessions enable a greater understanding of customer needs and expectations, driving insights and actions. The program has been particularly useful during this period of uncertainty. The virtual sessions include listening to customer calls and interactions conducted by customer-facing areas of the business.

In FY20 IAG launched a customer research project, **Imagine Better**, to help inform decisions on products and services. The project uses an online community of 3,400 customers to determine how IAG's products and services can be improved. Over 30 research studies have been conducted, with 10,000 surveys completed.

The **Listen Learn Act** program offers IAG's people an opportunity to provide continuous improvement ideas. This has been a rich source of ideas, with over 2,500 ideas raised during FY20 and 153 improvements delivered.

### ANALYTICS AND ARTIFICIAL INTELLIGENCE (AI)

The need for analytics and AI has increased due to COVID-19. IAG's single data platform has enabled the acceleration of its analytics and AI work, particularly as it relates to improving customer experience, increasing efficiency and simplification of business processes. Specifically:

- Customer experience was improved significantly through the launch of **machine learning-enabled motor vehicle total loss alerts**;
- The digital customer experience has been enhanced through the build-out of a **real time decision engine**, which enables greater personalisation and ease of engagement; and
- **Robotics** has been utilised in front line operations to improve service standards and response times to customers.

This work will continue through FY21 as part of the implementation of IAG's AI strategy.

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Range of initiatives to improve customer understanding and outcomes

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COVID-19 has increased the need for analytics and AI

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## 2. STRATEGY & CUSTOMER

### INNOVATION & VENTURING

In staying true to its purpose, IAG continues to launch new businesses which expand its role from 'protection' to 'prevention' through acquiring, building, investing and partnering in priority areas. Examples in FY20 include:

- **Safer Journeys**, a crash detection and emergency response service which completed a full market launch in 2H20 and will be scaled further in FY21;
- **Carbar**, a digital car-trading and subscription platform which continues to demonstrate a positive growth trajectory (including during COVID-19) as customers seek flexible alternatives to vehicle ownership; and
- IAG's **Innovation Cloud Platform**, a reusable and consistent technology approach that ensures IAG can move future new businesses through the innovation pipeline securely, reliably and at pace.

**Firemark Ventures** has invested ~\$33m as at 30 June 2020, across a range of investments. During 2H20, new investments included:

- **Arturo**, an American Family Insurance spin-out that uses artificial intelligence to analyse aerial images to identify property characteristics and produce predictive analytics. This can assist IAG and its customers by pre-filling home insurance quotes, and by helping accurately identify property characteristics, which will help in underwriting and pricing; and
- **Tic:Toc**, an online mortgage company that also provides automated micro-services like KYC (know your customer) and highly accurate property data. Tic:Toc has the capacity to streamline communications with customers by enabling IAG to quickly identify them and information about their properties, thereby providing an enhanced customer experience and reducing costs.

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Deployment and scaling of new ventures

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Firemark Ventures has invested ~\$33m

# 3. GROUP RESULTS

## FINANCIAL PERFORMANCE

	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
<b>GROUP RESULTS</b>						
<b>Gross written premium</b>	<b>5,881</b>	<b>6,124</b>	<b>5,962</b>	<b>6,173</b>	<b>12,005</b>	<b>12,135</b>
Gross earned premium	5,984	5,958	6,105	6,059	11,942	12,164
Reinsurance expense	(2,373)	(2,331)	(2,396)	(2,405)	(4,704)	(4,801)
<b>Net earned premium</b>	<b>3,611</b>	<b>3,627</b>	<b>3,709</b>	<b>3,654</b>	<b>7,238</b>	<b>7,363</b>
Net claims expense	(2,358)	(2,261)	(2,433)	(2,577)	(4,619)	(5,010)
Commission expense	(324)	(351)	(337)	(336)	(675)	(673)
Underwriting expense	(535)	(506)	(519)	(565)	(1,041)	(1,084)
<b>Underwriting profit</b>	<b>394</b>	<b>509</b>	<b>420</b>	<b>176</b>	<b>903</b>	<b>596</b>
Investment income on technical reserves	102	219	81	64	321	145
<b>Insurance profit</b>	<b>496</b>	<b>728</b>	<b>501</b>	<b>240</b>	<b>1,224</b>	<b>741</b>
Net corporate expense	5	(9)	(152)	213	(4)	61
Interest	(48)	(46)	(54)	(38)	(94)	(92)
Profit/(loss) from fee-based business	5	(14)	(2)	(21)	(9)	(23)
Share of profit from associates	19	26	29	30	45	59
Investment income on shareholders' funds	(7)	234	50	(231)	227	(181)
<b>Profit before income tax and amortisation</b>	<b>470</b>	<b>919</b>	<b>372</b>	<b>193</b>	<b>1,389</b>	<b>565</b>
Income tax expense	(123)	(240)	(90)	53	(363)	(37)
<b>Profit after income tax (before amortisation)</b>	<b>347</b>	<b>679</b>	<b>282</b>	<b>246</b>	<b>1,026</b>	<b>528</b>
Non-controlling interests	(25)	(73)	20	(79)	(98)	(59)
<b>Profit after income tax and non-controlling interests (before amortisation)</b>	<b>322</b>	<b>606</b>	<b>302</b>	<b>167</b>	<b>928</b>	<b>469</b>
Amortisation and impairment	(29)	(28)	(15)	(15)	(57)	(30)
<b>Profit attributable to IAG shareholders from continuing operations</b>	<b>293</b>	<b>578</b>	<b>287</b>	<b>152</b>	<b>871</b>	<b>439</b>
Net profit/(loss) after tax from discontinued operations	207	(2)	(4)	-	205	(4)
<b>Profit attributable to IAG shareholders</b>	<b>500</b>	<b>576</b>	<b>283</b>	<b>152</b>	<b>1,076</b>	<b>435</b>
<b>Insurance Ratios - Continuing Business</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>FY19</b>	<b>FY20</b>
Loss ratio	65.3%	62.3%	65.6%	70.5%	63.8%	68.0%
Immunised loss ratio	64.6%	59.5%	65.6%	68.6%	62.0%	67.1%
Expense ratio	23.8%	23.7%	23.1%	24.7%	23.7%	23.8%
Commission ratio	9.0%	9.7%	9.1%	9.2%	9.3%	9.1%
Administration ratio	14.8%	14.0%	14.0%	15.5%	14.4%	14.7%
Combined ratio	89.1%	86.0%	88.7%	95.2%	87.5%	91.8%
Immunised combined ratio	88.4%	83.2%	88.7%	93.3%	85.7%	90.9%
<b>Reported insurance margin</b>	<b>13.7%</b>	<b>20.1%</b>	<b>13.5%</b>	<b>6.6%</b>	<b>16.9%</b>	<b>10.1%</b>
<b>Underlying insurance margin</b>	<b>16.2%</b>	<b>16.9%</b>	<b>16.9%</b>	<b>15.1%</b>	<b>16.6%</b>	<b>16.0%</b>
<b>Key Financial Metrics (Total Operations)</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>FY19</b>	<b>FY20</b>
Cash earnings (\$m)	319	612	380	(101)	931	279
Reported ROE (average equity) (% pa)	15.4%	18.4%	9.0%	5.0%	16.7%	7.0%
<b>Cash ROE (average equity) (% pa)</b>	<b>9.8%</b>	<b>19.6%</b>	<b>12.1%</b>	<b>(3.3%)</b>	<b>14.4%</b>	<b>4.5%</b>
Basic EPS (cents)	21.31	24.99	12.28	6.60	46.26	18.87
Diluted EPS (cents)	20.48	24.16	12.16	6.38	44.58	18.49
Cash EPS (cents)	13.60	26.56	16.49	(4.37)	40.04	12.12
<b>Diluted cash EPS (cents)</b>	<b>13.40</b>	<b>25.63</b>	<b>15.98</b>	<b>(4.37)</b>	<b>38.83</b>	<b>12.12</b>
<b>DPS (cents)</b>	<b>12.00</b>	<b>20.00</b>	<b>10.00</b>	<b>0.00</b>	<b>32.00</b>	<b>10.00</b>
Probability of adequacy	90%	90%	90%	90%	90%	90%
<b>CET1 multiple</b>	<b>1.18</b>	<b>1.31</b>	<b>1.15</b>	<b>1.23</b>	<b>1.31</b>	<b>1.23</b>
PCA multiple	2.00	2.12	1.80	1.97	2.12	1.97

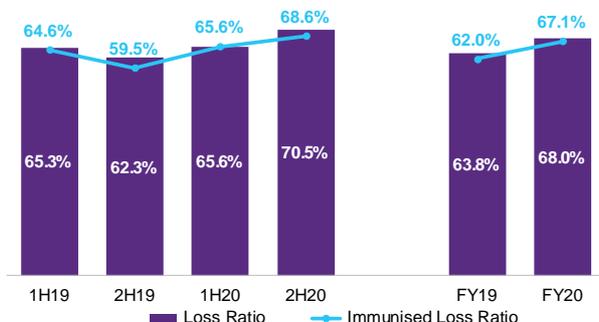
## KEY FOREIGN EXCHANGE RATES APPLIED

	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY19	FY20	FY19	FY20
New Zealand dollar	1.0449	1.0695	1.0662	1.0546
Malaysian ringgit	2.9000	2.9502	2.9505	2.8239

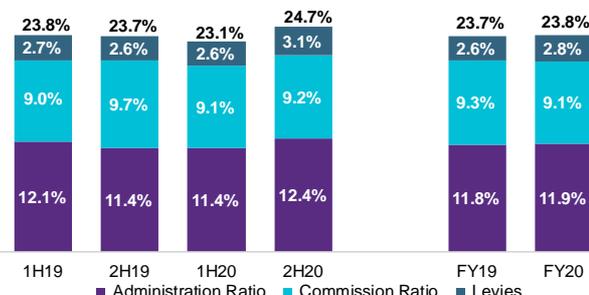
# 3. GROUP RESULTS

## INSURANCE RATIOS

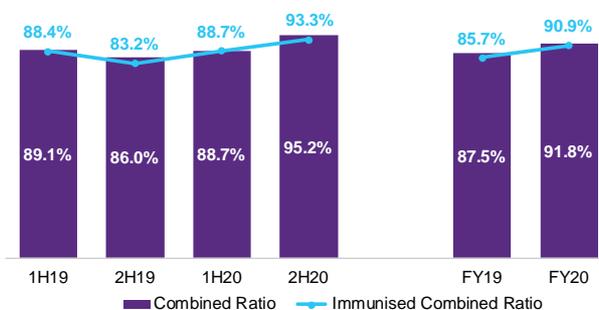
### LOSS RATIO



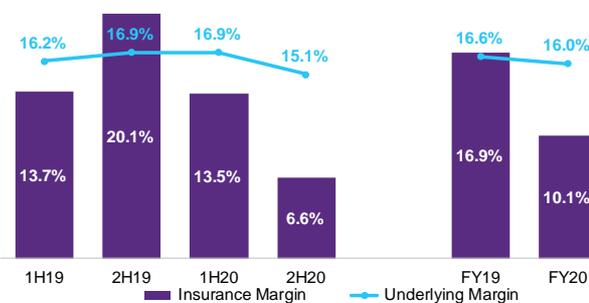
### EXPENSE RATIOS



### COMBINED RATIO



### INSURANCE MARGIN



## FY20 DIVISIONAL FINANCIAL PERFORMANCE

	Australia A\$m	New Zealand A\$m	Corporate & Other A\$m	Total A\$m
<b>Gross written premium</b>	<b>9,367</b>	<b>2,754</b>	<b>14</b>	<b>12,135</b>
Gross earned premium	9,416	2,733	15	12,164
Reinsurance expense	(3,694)	(1,098)	(9)	(4,801)
<b>Net earned premium</b>	<b>5,722</b>	<b>1,635</b>	<b>6</b>	<b>7,363</b>
Net claims expense	(4,081)	(919)	(10)	(5,010)
Commission expense	(487)	(182)	(4)	(673)
Underwriting expense	(860)	(223)	(1)	(1,084)
<b>Underwriting profit/(loss)</b>	<b>294</b>	<b>311</b>	<b>(9)</b>	<b>596</b>
Investment income on technical reserves	126	19	-	145
<b>Insurance profit/(loss)</b>	<b>420</b>	<b>330</b>	<b>(9)</b>	<b>741</b>
Profit/(loss) from fee-based business	(11)	-	(12)	(23)
Share of profit/(loss) from associates	(1)	-	60	59
<b>Total divisional results</b>	<b>408</b>	<b>330</b>	<b>39</b>	<b>777</b>

### Insurance Ratios

Loss ratio	71.3%	56.2%		68.0%
Expense ratio	23.5%	24.7%		23.8%
Commission ratio	8.5%	11.1%		9.1%
Administration ratio	15.0%	13.6%		14.7%
Combined ratio	94.8%	80.9%		91.8%
Insurance margin	7.3%	20.2%		10.1%
Underlying insurance margin	14.9%	18.6%		16.0%

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## 3. GROUP RESULTS

### PREMIUMS

Reported GWP of \$12,135m was an increase of 1.1% over FY19, consistent with IAG's guidance of 'low single digit' growth. This comprised:

- Slightly higher (+0.4%) GWP of \$9,367m in Australia, with some improvement evident in 2H20, notwithstanding modestly negative COVID-19 influences. The Australian GWP outcome contained:
  - Largely rate-driven short tail personal lines growth of 3.2%;
  - A 7.5% decline in long tail CTP GWP, reflecting past and recent scheme reform or changes, and ensuing price reductions; and
  - A 2.9% decrease in commercial lines GWP, as weaker volume and business exit effects outstripped implemented rate increase impacts; and
- Reported GWP growth of 3.5% in New Zealand (local currency growth of 2.4%), where:
  - Business produced strong local currency GWP growth of 5.4%, led by commercial line volumes and commercial property and liability rates; and
  - Consumer GWP was similar to FY19 levels, helped by growth in the AMI private motor portfolio.

Overall GWP growth in 2H20 was 0.8%, compared to 1.4% in 1H20. The second half of the financial year bore adverse effects from COVID-19, which were primarily reflected in lower new business volumes, particularly over the months of March to May. Collectively, this is estimated to have reduced GWP by approximately \$80m, or 0.7% of the FY20 outcome (1.3% of 2H20).

### INSURANCE MARGIN

IAG's underlying insurance margin was 16.0% (FY19: 16.6%), including a softer second half outcome of 15.1%. The full year underlying margin movement included:

- Further net benefits from the group-wide optimisation program which met the targeted run rate reduction of \$250m per annum in 1H20;
- The absorption of approximately \$50m of additional regulatory and compliance costs, including increased investment in risk-related resources;
- A greater than 100bps headwind from lower interest rates impacting investment income; and
- Largely offsetting COVID-19 influences on the 2H20 underwriting profit.

Driving forces behind the lower underlying margin in 2H20 (vs. 1H20) were:

- Higher reinsurance costs flowing from increased cover and rates on the calendar 2020 catastrophe renewal, as well as the cost of replacement covers purchased following the peril activity early in calendar 2020;
- Increased headwind on investment returns from lower interest rates; and
- A deterioration in the performance of some Australian commercial long tail portfolios.

IAG's definition of its underlying insurance margin in FY20 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.

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GWP growth of 1.1% in FY20, in line with guidance

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COVID-19 influences estimated to have reduced GWP by ~\$80m

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Lower underlying insurance margin of 16.0%, vs. 16.6% in FY19

## 3. GROUP RESULTS

From FY21, IAG is including zero allowance for reserve releases in its underlying margin definition based on its view of future reserve movements.

A significantly lower reported margin of 10.1% (FY19: 16.9%) and insurance profit of \$741m (FY19: \$1,224m) included:

- An unfavourable net natural peril experience which saw related claim costs exceed allowance by \$263m, compared to a modest overrun of \$19m in FY19;
- A net prior period reserve strengthening of \$48m, compared to net releases of \$126m in FY19; and
- A negative credit spread impact of \$46m in FY20, compared to a minor negative effect in FY19 (\$6m).

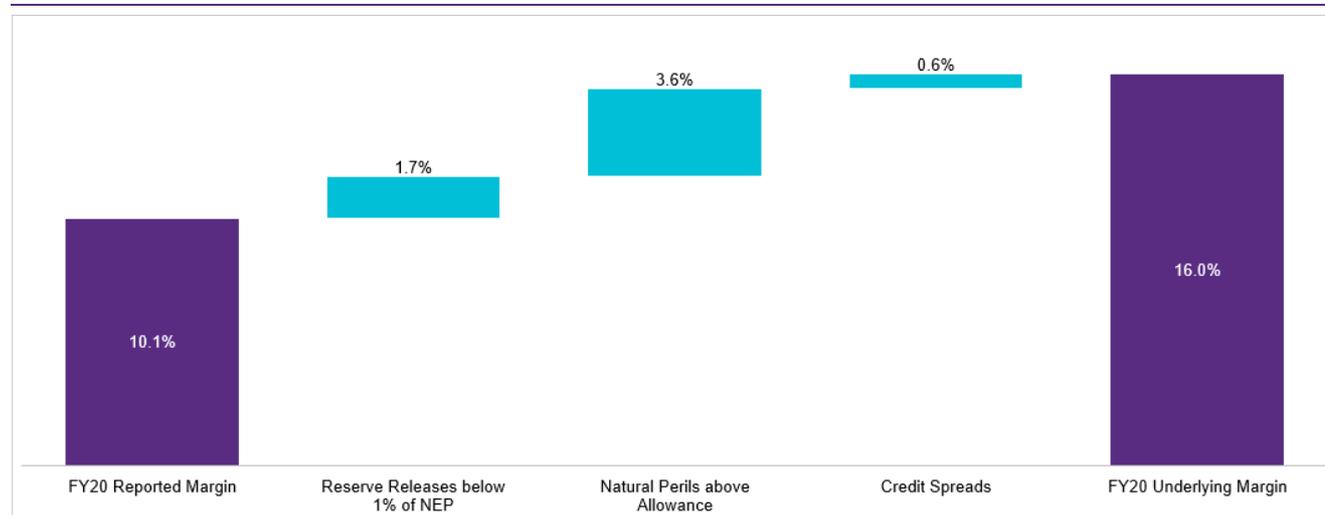
The FY20 reported margin compares to initial guidance of 16-18%, as well as adjusted guidance of 12.5-14.5% which reflected major peril impacts in early calendar 2020 and the lowering of prior period reserve release expectations.

The full year outcome of 10.1% is consistent with the adjusted guidance of 12.5-14.5% after allowing for:

- A negative 2H20 credit spread impact from a net widening of spreads of \$53m (0.7% adverse FY20 margin impact);
- A net natural peril claim cost overrun of \$54m compared to a revised FY20 prediction of \$850m (0.7% adverse FY20 margin impact); and
- Second half reserve strengthening of \$53m, compared to prior guidance of releases equivalent to 1% of NEP in 2H20, and 0.5% on a full year basis (1.2% adverse FY20 margin impact).

Significantly lower reported insurance margin of 10.1%, after adverse peril, prior period reserving and credit spread impacts

### GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
<b>INSURANCE MARGIN IMPACTS</b>						
Reserve releases/(strengthening)	83	43	5	(53)	126	(48)
Natural perils	(414)	(213)	(419)	(485)	(627)	(904)
Natural peril allowance	304	304	320	321	608	641
Credit spreads	(24)	18	7	(53)	(6)	(46)
Reserve releases/(strengthening)	2.3%	1.2%	0.1%	(1.5%)	1.7%	(0.7%)
Natural perils	(11.5%)	(5.9%)	(11.3%)	(13.3%)	(8.7%)	(12.3%)
Natural peril allowance	8.4%	8.4%	8.6%	8.8%	8.4%	8.7%
Credit spreads	(0.7%)	0.5%	0.2%	(1.5%)	(0.1%)	(0.6%)

## 3. GROUP RESULTS

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

INSURANCE PROFIT	1H20 A\$m	2H20 A\$m	FY20 A\$m
Investor Report	501	240	741
Customer refund provision	(150)	(96)	(246)
<b>Financial Report (Appendix 4D/4E)</b>	<b>351</b>	<b>144</b>	<b>495</b>

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

### REINSURANCE EXPENSE

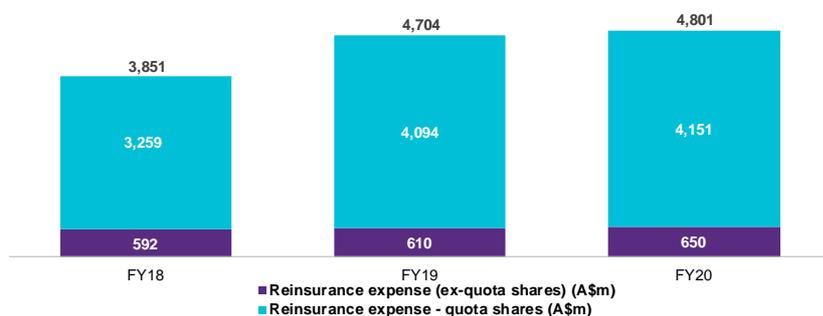
The total reinsurance expense includes the cost of all covers purchased, including catastrophe, casualty, facultative and proportional protection.

The FY20 reinsurance expense of \$4,801m compares to \$4,704m in FY19, an increase of approximately 2%. Quota share-related reinsurance expense increased by nearly 1.5%, broadly in line with gross earned premium growth, while a greater than 6% increase in non-quota share reinsurance expense embraced the net effect of:

- Modest overall aggregate growth;
- Increased gross cover, including increased cover at the top end of the calendar 2019 and 2020 main towers and extra drop-down covers;
- Lower renewal costs for commercial line per risk excess of loss cover in Australia, reflecting improved large loss experience and lower commercial volumes;
- Slightly higher catastrophe reinsurance rates, stemming from the calendar 2020 renewal; and
- The cost of replacement covers purchased following heavy peril activity early in calendar 2020.

Non-quota share reinsurance expense over 6% higher

### REINSURANCE EXPENSE



### CLAIMS

A higher immunised loss ratio of 67.1% (FY19: 62.0%) contained:

- Net prior period reserve strengthening of \$48m, representing an adverse movement of \$174m compared to net releases of \$126m in FY19;
- Significantly higher net natural peril claim costs of \$904m (FY19: \$627m);
- An improved underlying claims performance, including further benefits from simplification of claims systems as part of IAG's optimisation program; and

Higher loss ratio driven by adverse peril and prior period reserving outcomes

## 3. GROUP RESULTS

- An estimated net claim benefit of approximately \$50m from COVID-19-related effects, comprising:
  - A net benefit of around \$150m, primarily from lower motor frequency with offsetting claim costs from other classes, notably travel and landlords' insurance; and
  - A provision of approximately \$100m for potential COVID-19 claim costs that are highly uncertain, sit within a wide range and are estimated on a probability-weighted basis. This accords with accounting requirements and spans potential business interruption, landlords' and other insurance class impacts, including the estimated impact of an economic downturn on the settlement of long tail claims.

The FY20 reported loss ratio was 68.0% (FY19: 63.8%). In addition to prior period reserve and peril movements, this included an unfavourable risk free discount rate adjustment of \$72m, compared to an unfavourable effect of \$129m in FY19.

### Reserve Movements

Prior period reserve strengthening of \$48m contrasted with \$126m of reserve releases in FY19. This outcome reflected much stronger claim development across Australian long tail classes than observed in recent years, together with the emergence of an increasing number of large claims in excess of expectations.

After modest releases in 1H20, the second half saw net strengthening of over \$50m which included the following ingredients:

- Over \$15m of Australian workers' compensation reserve strengthening;
- Nearly \$20m of Australian professional risk reserve strengthening;
- Over \$40m of strengthening related to Australian liability classes, predominantly in the areas of silicosis and molestation; and
- An offset from around \$25m of Australian CTP releases, which were in line with expectations.

New Zealand contributed modest net reserve releases during FY20.

	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
<b>RESERVE MOVEMENTS</b>						
Reserve releases/(strengthening)	83	43	5	(53)	126	(48)
<b>Impact on insurance margin</b>	<b>2.3%</b>	<b>1.2%</b>	<b>0.1%</b>	<b>(1.5%)</b>	<b>1.7%</b>	<b>(0.7%)</b>

IAG anticipates a negligible contribution from prior period reserve movements in FY21 given the heightened uncertainty attached to long tail reserve development in the current macroeconomic and operating environment.

### Natural Perils

Net natural peril claim costs in FY20 were \$904m, which was \$263m higher than allowance (FY19: \$19m above allowance). This exceeds the revised assumption first provided in February 2020 of \$850m, following higher than anticipated attritional peril experience in the final quarter of the financial year.

	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
<b>NATURAL PERILS</b>						
Net natural peril claim costs	(414)	(213)	(419)	(485)	(627)	(904)
Natural peril allowance	304	304	320	321	608	641
<b>Impact on insurance margin</b>	<b>(110)</b>	<b>91</b>	<b>(99)</b>	<b>(164)</b>	<b>(19)</b>	<b>(263)</b>

Net reserve strengthening owing to adverse Australian long tail development

Net natural peril claim costs \$263m above allowance

## 3. GROUP RESULTS

FY20 saw extensive natural peril activity in the middle of the financial year, centred on:

- Heightened bushfire activity in Australia, exacerbated by prolonged drought and extreme weather conditions, which resulted in around 20,000 claims and a net claim cost of over \$170m, predominantly in 1H20;
- A major hailstorm event in January 2020 which impacted parts of Melbourne, Canberra and Sydney and produced over 40,000 claims and a net claim cost of \$169m; and
- An east coast low affecting NSW and Queensland in early February, where over 30,000 claims led to a net claim cost of \$127m.

The FY20 net perils outcome benefited from over \$700m of reinsurance recoveries (post-quota share), including:

- Approximately \$150m under the calendar 2019 main catastrophe cover;
- Approximately \$150m under the calendar 2020 main catastrophe cover;
- Over \$300m under the calendar 2019 aggregate cover;
- \$101m from the FY20 stop-loss cover; and
- Approximately \$16m under the calendar 2020 aggregate cover, following full erosion of the attached deductible during 2H20.

Nearly \$300m of net claim cost from combination of hailstorm and east coast low in 2H20

FY20 NATURAL PERIL COSTS BY EVENT	A\$m
Mid-north NSW bushfires (November 2019)	68
Sunshine Coast (Queensland) hail and thunderstorms (November 2019)	46
Canterbury (New Zealand) hailstorm (November 2019)	49
Northern Sydney wind and thunderstorms (late November 2019)*	17
NSW bushfires (late November 2019)*	17
South Australian bushfires (December 2019)*	17
Victorian bushfires (December 2019)*	17
NSW bushfires (late December 2019)*	17
Melbourne and South East Queensland rain and storms (January 2020)	25
Melbourne, Canberra and Sydney hailstorms (January 2020)*	169
Queensland/NSW east coast low wind and storm (early February 2020)*	127
Victoria/NSW (Sydney) severe storms (February 2020)*	17
Rockhampton hailstorm (April 2020)*	17
Other events (<\$15m)	402
FY20 stop-loss cover (\$101m xs \$675m)	(101)
<b>Total</b>	<b>904</b>

\* Net of reinsurance recoveries

The FY20 net natural peril claim cost also included greater incidence of attritional peril events below \$15m in size. These amounted to \$402m, compared to \$280m in FY19.

### EXPENSES

Total net operating expenses (commission and underwriting) were \$1,757m, compared to \$1,716m in FY19.

During FY20 IAG met its optimisation program target of reducing gross operating costs by \$250m. This run rate was met in 1H20, resulting in an incremental pre-tax benefit of approximately \$160m in FY20, compared to FY19. This effect was spread across the underwriting expense, claims expense and fee-based business lines.

Optimisation program target met

## 3. GROUP RESULTS

A counter to this has been an increase in regulatory and compliance costs, derived from increased regulatory requirements and investment in risk-related systems and resources. As foreshadowed, these have increased by around \$80m over the past three years, with an increment of approximately \$50m incurred in FY20, compared to FY19.

2H20 expenses included approximately \$50m of additional cost incurred as a result of COVID-19. This covered:

- Operating costs arising from the movement of the vast majority of employees to a 'working from home' basis;
- Additional costs stemming from the temporary disruption to a number of offshore service providers; and
- A net cost of over \$20m from the decision to close the AMI branch network in New Zealand, following COVID-19's acceleration of customer engagement trends, increasingly towards online or digital formats.

The FY20 reported expense ratio was relatively flat at 23.8% (FY19: 23.7%), as was the administration ratio on an ex-levies basis, increasing marginally to 11.9% (FY19: 11.8%). 2H20 ratios were higher, reflecting the COVID-19 costs incurred in that period.

The commission ratio of 9.1% was lower than FY19, influenced by business mix changes.

EXPENSES	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
Gross underwriting expense ex levies	781	745	761	801	1,526	1,562
Levies	164	143	169	199	307	368
<b>Total gross underwriting expenses</b>	<b>945</b>	<b>888</b>	<b>930</b>	<b>1,000</b>	<b>1,833</b>	<b>1,930</b>
Gross commission expense	487	524	506	503	1,011	1,009
<b>Total gross expenses</b>	<b>1,432</b>	<b>1,412</b>	<b>1,436</b>	<b>1,503</b>	<b>2,844</b>	<b>2,939</b>
Reinsurance commission revenue	(573)	(555)	(580)	(602)	(1,128)	(1,182)
<b>Total net expenses</b>	<b>859</b>	<b>857</b>	<b>856</b>	<b>901</b>	<b>1,716</b>	<b>1,757</b>

### INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY20 was \$145m, compared to \$321m in FY19. This outcome was influenced by:

- The continued downwards movement in the yield curve since 30 June 2019, and particularly in 2H20; and
- A negative effect of \$46m from the widening of credit spreads, compared to an equivalent loss of \$6m in FY19.

As a consequence, the average yield achieved in FY20 was lower than that of FY19.

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

Lower average yield on technical reserves compared to FY19

## 3. GROUP RESULTS

### NET CORPORATE EXPENSE

Net corporate expense in FY20 amounted to a pre-tax profit of \$61m, covering two main elements:

- An approximately \$309m profit on sale of IAG's 26% interest in SBI General, which completed at the end of March 2020; and
- A \$246m pre-tax provision for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation programs.

The total profit on sale of the interest in SBI General was \$326m after inclusion of favourable taxation effects, included in the tax expense.

The customer refunds provision covers three separate product areas and is associated with multi-year pricing issues identified by IAG where discounts were not always applied in full to premiums for some customers.

An initial pre-tax provision of \$150m was identified in 1H20 for one product area. A further \$96m was provided in 2H20 to:

- Update the initial provision;
- Include further refund programs in respect of similar pricing issues; and
- Provide for additional administration costs identified in respect of the original issue.

The issues concerned have been self-notified to the Australian Securities and Investments Commission (ASIC) and were identified as part of a proactive review of pricing systems and processes, which is ongoing.

After tax and non-controlling interest, the net cost of the full year provision to IAG is \$141m (1H20: \$82m).

<b>CUSTOMER REFUNDS PROVISION</b>	<b>1H20 A\$m</b>	<b>2H20 A\$m</b>	<b>FY20 A\$m</b>
Gross provision	180	110	290
Quota share recovery	(30)	(14)	(44)
<b>Corporate expense</b>	<b>150</b>	<b>96</b>	<b>246</b>
Income tax	(45)	(29)	(74)
Non-controlling interest	(23)	(8)	(31)
<b>Net provision</b>	<b>82</b>	<b>59</b>	<b>141</b>

### FEE-BASED BUSINESS

Fee-based business contributed a loss of \$23m in FY20, compared to a loss of \$9m in FY19. This period's result comprised:

- A positive contribution of \$11m (FY19: \$13m) from IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government. An improved underlying performance was achieved after allowing for \$5m of prior period fee income (FY19: \$10m), which is typically reported in the opening half of the financial year;
- An initial loss of approximately \$3m from MotorServe's car servicing activities, which were acquired during FY20; and
- A \$31m loss from investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives, including:
  - Scaling existing business investments that had previously been in early customer testing phases;

Profit on SBI General sale largely offset by increased customer refund provision

Increased fee-based loss of \$23m

## 3. GROUP RESULTS

- Costs associated with mobility initiatives, including those arising from the trials and full launch of the Safer Journeys crash detection and response service;
- An initial loss from the accelerated development of the Carbar digital car-trading platform business, in which a 51% interest was acquired at the end of FY19;
- Increased investment in customer identity and consent functionality; and
- Net costs from the Ambiata specialist data activation business and from the innovation hubs run by Firemark Labs in Sydney and Singapore.

A similar-sized pre-tax loss from fee-based income is expected in FY21.

### SHARE OF ASSOCIATES

The combined contribution from associates was a profit of \$59m (FY19: \$45m), largely derived from IAG's interests in Malaysia and India. As IAG has significantly wound back its activities in the Asia region, related support and development costs have materially reduced.

SHARE OF PROFITS FROM ASSOCIATES	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
Malaysia	17	21	20	22	38	42
India	13	14	16	6	27	22
Asia support costs	(12)	(9)	(7)	3	(21)	(4)
Other	1	-	-	(1)	1	(1)
<b>Total share of profits from associates</b>	<b>19</b>	<b>26</b>	<b>29</b>	<b>30</b>	<b>45</b>	<b>59</b>

#### India

IAG completed the sale of its 26% interest in SBI General, a joint venture with State Bank of India, at the end of March 2020. This followed the original announcement on 17 October 2019 of the sale, subject to associated regulatory processes and approvals. The total net profit on sale was \$326m, with the bulk included in the net corporate expense line plus a small tax benefit in the tax expense line.

IAG's share of associates includes a contribution of \$22m (FY19: \$27m) from SBI General for the nine-month period up until the point of sale.

#### 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 5% in FY20, and by nearly 1% in local currency terms. This growth was driven by higher motor volumes in AmGeneral's core agency channel along with increased fire volumes across all channels.

AmGeneral's FY20 insurance margin of 14.5% was identical to FY19, 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 motor and fire classes; and
- Lower investment returns due to mark-to-market impacts on investments.

Sale of SBI General stake completed in 2H20

Sound margin maintained by AmGeneral in Malaysia

## 3. GROUP RESULTS

A lower margin in 2H20 reflected the impact of the Malaysian Movement Control Order (MCO), in response to COVID-19.

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

<b>AMGENERAL</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>FY19</b>	<b>FY20</b>
<b>Financial Performance</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>
<b>Gross written premium</b>	<b>252</b>	<b>271</b>	<b>279</b>	<b>272</b>	<b>523</b>	<b>551</b>
Gross earned premium	252	263	277	275	515	552
Reinsurance expense	(21)	(24)	(24)	(26)	(45)	(50)
<b>Net earned premium</b>	<b>231</b>	<b>239</b>	<b>253</b>	<b>249</b>	<b>470</b>	<b>502</b>
Net claims expense	(135)	(145)	(151)	(145)	(280)	(296)
Commission expense	(27)	(27)	(27)	(27)	(54)	(54)
Underwriting expense	(55)	(59)	(57)	(70)	(114)	(127)
<b>Underwriting profit</b>	<b>14</b>	<b>8</b>	<b>18</b>	<b>7</b>	<b>22</b>	<b>25</b>
Investment income on technical reserves	20	26	23	25	46	48
<b>Insurance profit</b>	<b>34</b>	<b>34</b>	<b>41</b>	<b>32</b>	<b>68</b>	<b>73</b>
<b>Net profit after tax</b>	<b>34</b>	<b>43</b>	<b>41</b>	<b>44</b>	<b>77</b>	<b>85</b>
<b>Net profit after tax - IAG's share (49%)</b>	<b>17</b>	<b>21</b>	<b>20</b>	<b>22</b>	<b>38</b>	<b>42</b>
<b>Insurance Ratios</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>FY19</b>	<b>FY20</b>
Loss ratio	58.4%	60.7%	59.7%	58.2%	59.6%	59.0%
Expense ratio	35.5%	36.0%	33.2%	38.9%	35.8%	36.1%
Commission ratio	11.7%	11.3%	10.7%	10.8%	11.5%	10.8%
Administration ratio	23.8%	24.7%	22.5%	28.1%	24.3%	25.3%
Combined ratio	93.9%	96.7%	92.9%	97.1%	95.4%	95.1%
Insurance margin	14.7%	14.2%	16.2%	12.9%	14.5%	14.5%

### INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds was a loss of \$181m, compared to a profit of \$227m in FY19, reflecting the extreme market volatility accompanying the onset of the COVID-19 pandemic. The adverse performance was the result of:

- The impact of volatile equity markets on portfolios in 2H20;
- Negative mark-to-market impacts in alternative asset classes, comprising higher yielding credit strategies, global convertible bonds and hedge funds; and
- An \$11m writedown of IAG's 16.9% interest in Bohai in China.

The FY20 outcome is an improvement of approximately \$100m compared to the year-to-date loss of \$280m indicated on 4 May 2020 for the ten-month period to the end of April.

At 30 June 2020, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was 75%, compared to nearly 51% at the end of 1H20.

### TAX EXPENSE

IAG's FY20 tax expense of \$37m (FY19: \$363m) represented an effective tax rate (pre-amortisation and impairment) of 6.5% (FY19: 26.1%).

This artificially low rate reflects the profit on sale of SBI General representing over half of pre-tax earnings and not being subject to tax in Australia. Adjusting solely for this item produces an effective tax rate of over 21%.

Loss on shareholders' funds following volatile 2H20 market conditions

Tax rate over 21% after adjusting for SBI General profit

## 3. GROUP RESULTS

Other contributory elements reconciling the FY20 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.

### NON-CONTROLLING INTERESTS

Non-controlling interests reduced IAG's profit after tax by \$59m, compared to a reduction of \$98m in FY19.

Non-controlling interests are principally represented by RACV's 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT form part of the Australia division. IMA posted a significantly lower profit in FY20 owing to:

- The impact of the major peril events in NSW and Victoria; 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.

### AMORTISATION

A lower amortisation and impairment expense of \$30m (FY19: \$57m) reflects the completion of amortisation of acquired intangibles associated with the former Wesfarmers insurance 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 FY20 was 12.12 cents per share (cps), a decrease of nearly 70% compared to FY19. Reported earnings per share (EPS) in FY20 was 18.87cps, which was nearly 60% lower than FY19, and on a diluted basis was 18.49cps (FY19: 44.58cps).

FY20 basic EPS was calculated on lower weighted average equity capital on issue (excluding treasury shares) of 2,304.7m shares (FY19: 2,325.6m), reflecting the full effect of the share consolidation completed on 5 November 2018. Diluted EPS was based on 2,514.9m shares after allowance for potential equity issuance from hybrid debt conversion.

	Shares (m)
<b>ORDINARY ISSUED CAPITAL</b>	
Balance at the beginning of the financial year	2,311.0
<b>Balance at the end of the financial year</b>	<b>2,311.0</b>
Average weighted shares on issue	2,311.0
Less: Treasury shares held in trust	(6.3)
<b>Average weighted shares on issue - basic EPS</b>	<b>2,304.7</b>
Add: Treasury shares held in trust	6.3
Add: Potential dilutionary issues from hybrid debt instruments	203.9
<b>Average weighted potential shares on issue - diluted EPS</b>	<b>2,514.9</b>

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.

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

~70% decrease in diluted cash EPS to 12.12 cents

## 3. GROUP RESULTS

	FY20 A\$m
<b>CASH EARNINGS</b>	
<b>Net profit after tax</b>	<b>435</b>
Acquired intangible amortisation and impairment	30
Unusual items:	
- Net corporate expenses	(61)
- Tax effect on net corporate expense	(94)
- Non-controlling interest in net corporate expense	(31)
<b>Cash earnings</b>	<b>279</b>
<b>Dividend paid</b>	<b>231</b>
<b>Cash payout ratio</b>	<b>82.8%</b>

### DIVIDEND

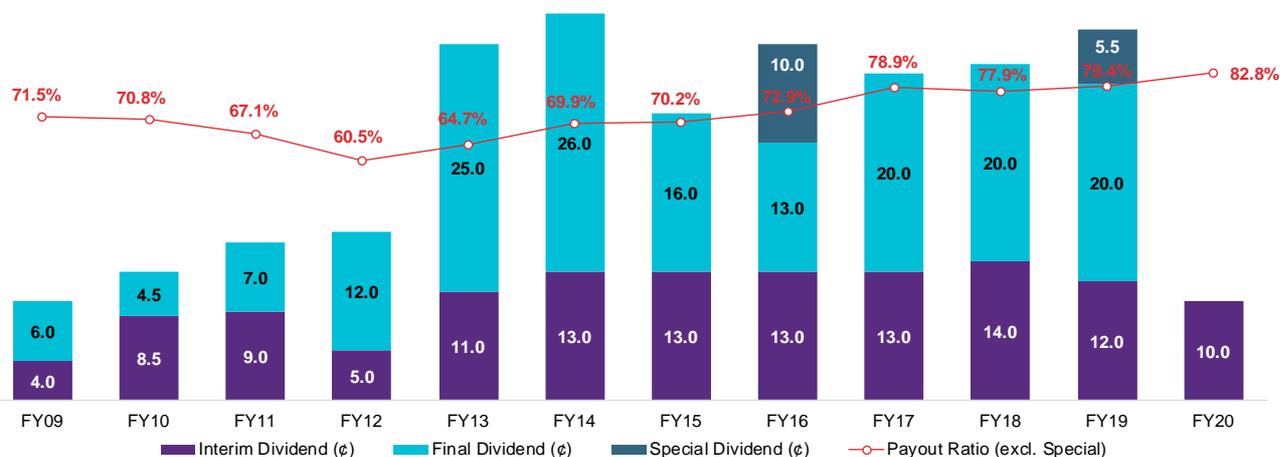
IAG's dividend policy is to pay out 60-80% of cash earnings in any full financial year.

Based on cash earnings of \$279m, the interim dividend of 10 cents per share paid in March 2020 represents over 80% of full year cash earnings, following negative cash earnings of over \$100m in 2H20.

As a result, the Board has determined not to pay a final dividend for FY20.

Dividend confined to interim payment in March – equivalent to over 80% of full year cash earnings

### DIVIDEND HISTORY – FY09-FY20



As at 30 June 2020, IAG held a negligible franking balance, including its 70% entitlement to franking held by IMA.

In addition to capital management activity in recent years, the depletion of IAG's franking balance reflects the absence of taxable earnings in Australia in FY20 which was influenced by severe net natural peril claim costs and adverse reserving and credit spread effects. This will impact IAG's capacity to frank dividend payments in the short term.

As a result, IAG expects a reduced level of franking will apply to any ordinary dividends that it may declare and pay during calendar 2021, while zero franking will apply to relevant distributions on the Capital Notes in the six-month period to 31 December 2020.

# 3. GROUP RESULTS

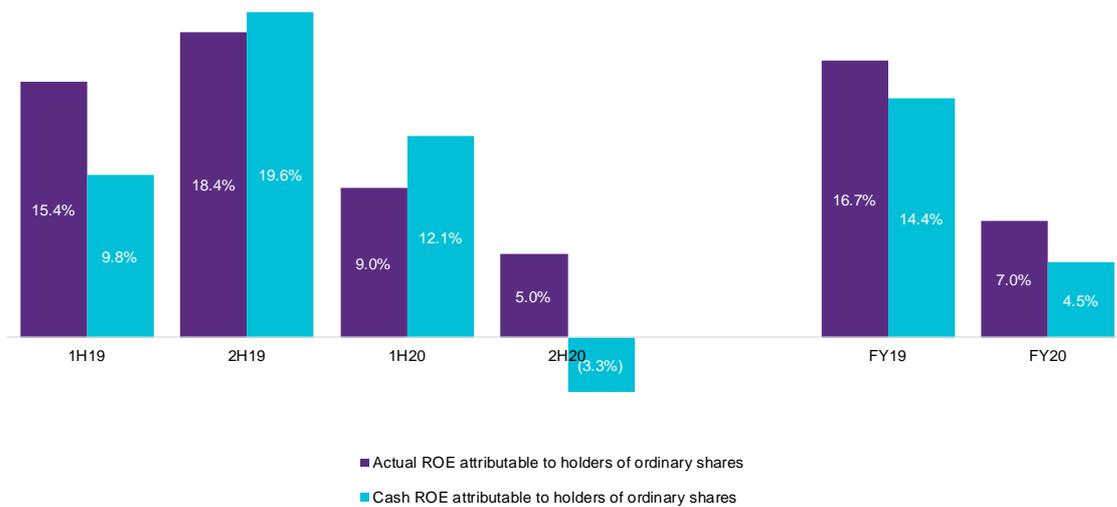
## RETURN ON EQUITY

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 8.5%, equating to a cash ROE target of approximately 12-13%. In FY20, IAG reported a cash ROE of 4.5% (FY19: 14.4%).

Cash ROE of 4.5%

## RETURN ON EQUITY (ANNUALISED)



# 4. AUSTRALIA

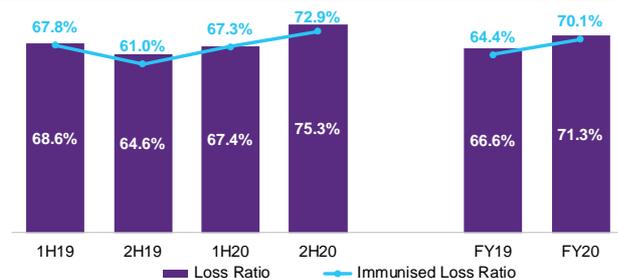
## FINANCIAL PERFORMANCE

AUSTRALIA RESULTS	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
<b>Gross written premium</b>	<b>4,606</b>	<b>4,725</b>	<b>4,608</b>	<b>4,759</b>	<b>9,331</b>	<b>9,367</b>
Gross earned premium	4,698	4,625	4,739	4,677	9,323	9,416
Reinsurance expense	(1,864)	(1,807)	(1,859)	(1,835)	(3,671)	(3,694)
<b>Net earned premium</b>	<b>2,834</b>	<b>2,818</b>	<b>2,880</b>	<b>2,842</b>	<b>5,652</b>	<b>5,722</b>
Net claims expense	(1,943)	(1,821)	(1,940)	(2,141)	(3,764)	(4,081)
Commission expense	(239)	(251)	(245)	(242)	(490)	(487)
Underwriting expense	(437)	(401)	(420)	(440)	(838)	(860)
<b>Underwriting profit</b>	<b>215</b>	<b>345</b>	<b>275</b>	<b>19</b>	<b>560</b>	<b>294</b>
Investment income on technical reserves	89	193	74	52	282	126
<b>Insurance profit</b>	<b>304</b>	<b>538</b>	<b>349</b>	<b>71</b>	<b>842</b>	<b>420</b>
Profit/(loss) from fee-based business	9	(10)	6	(17)	(1)	(11)
Share of profit/(loss) from associates	1	1	-	(1)	2	(1)
<b>Total divisional result</b>	<b>314</b>	<b>529</b>	<b>355</b>	<b>53</b>	<b>843</b>	<b>408</b>

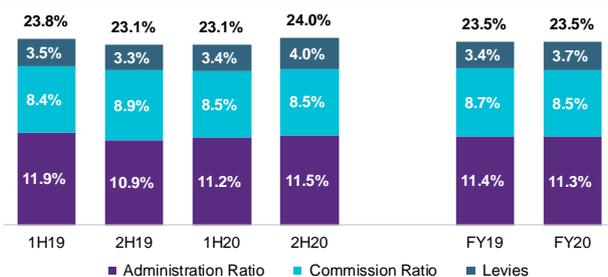
Insurance Ratios	1H19	2H19	1H20	2H20	FY19	FY20
Loss ratio	68.6%	64.6%	67.4%	75.3%	66.6%	71.3%
Immunised loss ratio	67.8%	61.0%	67.3%	72.9%	64.4%	70.1%
Expense ratio	23.8%	23.1%	23.1%	24.0%	23.5%	23.5%
Commission ratio	8.4%	8.9%	8.5%	8.5%	8.7%	8.5%
Administration ratio	15.4%	14.2%	14.6%	15.5%	14.8%	15.0%
Combined ratio	92.4%	87.7%	90.5%	99.3%	90.1%	94.8%
Immunised combined ratio	91.6%	84.1%	90.4%	96.9%	87.9%	93.6%
Reported insurance margin	10.7%	19.1%	12.1%	2.5%	14.9%	7.3%
Underlying insurance margin	14.8%	16.2%	16.1%	13.9%	15.5%	14.9%

## INSURANCE RATIOS

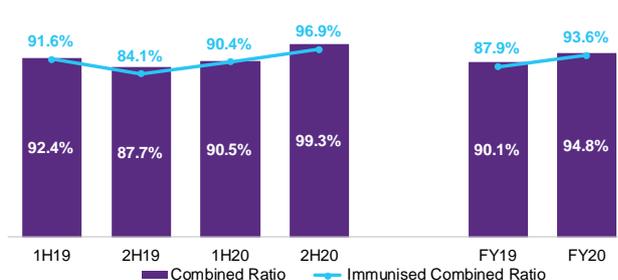
### LOSS RATIO



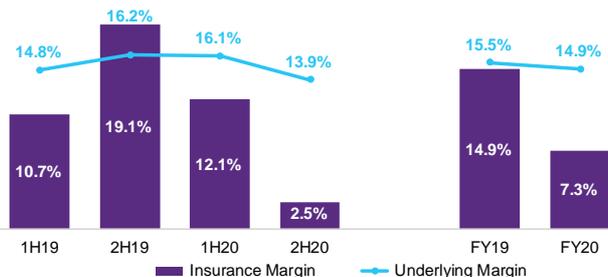
### EXPENSE RATIOS



### COMBINED RATIO



### INSURANCE MARGIN

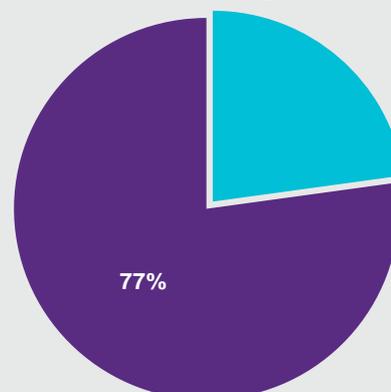


## 4. AUSTRALIA

### 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
- GWP growth of 0.4%, including lower post-reform CTP rates, discontinued business impacts and modestly adverse COVID-19 impacts – 2H20 growth of 0.7%
- Modestly negative net COVID-19 impact on 2H20 underwriting profit – positive net claims impact countered by higher operating expenses
- Softer 2H20 underlying margin, including impact of lower interest rates and deterioration in commercial long tail loss ratios
- Lower reported margin of 7.3% following substantial adverse peril and prior period reserving movements

Australia - % Group GWP



### PREMIUMS

Australia reported GWP of \$9,367m in FY20, an increase of 0.4% over FY19. After a flat performance in 1H20, GWP growth in 2H20 was 0.7%, reflecting diminished adverse effect from lower CTP premiums, reduced commercial volume loss and a small negative from COVID-19 effects.

COVID-19 is estimated to have reduced 2H20 GWP by approximately \$60m, primarily through reduced new business volumes, especially in the period March to May 2020.

The overall Australian GWP outcome includes:

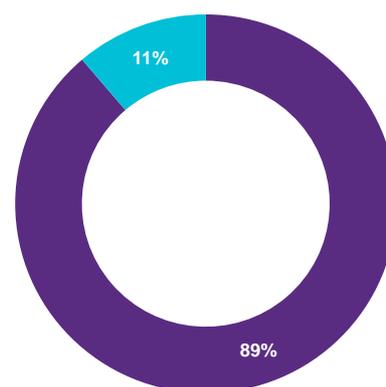
- Largely rate-driven growth of 2% in short tail motor, with some offset from volume slippage;
- Home growth of over 5%, which was primarily rate-derived, with some volume growth in Victoria;
- A 7.5% contraction in long tail CTP, predominantly from scheme change-driven cumulative rate reductions; and
- Relatively flat like-for-like commercial lines GWP, after allowance for business exits in FY19, with average rate increases of ~5.5% countered by lower volumes.

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.

Slightly stronger 2H20 GWP growth despite adverse COVID-19 effect

PERSONAL FY20 GWP – TAIL



■ Short Tail  
■ Long Tail

## 4. AUSTRALIA

### 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 1.8%, including 3.2% increase in short tail

PERSONAL GWP	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m	GWP Growth FY20 vs FY19
Motor	1,524	1,608	1,574	1,620	3,132	3,194	2.0%
Home	1,211	1,189	1,261	1,263	2,400	2,524	5.2%
Niche & Other	65	62	65	55	127	120	(5.5%)
<b>Total Short Tail</b>	<b>2,800</b>	<b>2,859</b>	<b>2,900</b>	<b>2,938</b>	<b>5,659</b>	<b>5,838</b>	<b>3.2%</b>
Long Tail	399	400	364	375	799	739	(7.5%)
<b>Total GWP</b>	<b>3,199</b>	<b>3,259</b>	<b>3,264</b>	<b>3,313</b>	<b>6,458</b>	<b>6,577</b>	<b>1.8%</b>

Personal lines GWP increased 1.8% to \$6,577m (FY19: \$6,458m). 2H20 GWP growth was slightly lower than full year or first half growth, at 1.7% (1H20: 2.0%), encompassing:

- Lower motor growth of 0.7% (1H20: 3.3%);
- Higher home growth of 6.2% (1H20: 4.1%);
- Weaker 'niche & other' GWP; and
- Reduced adverse effect from lower CTP rates, which restricted the CTP GWP decline to 6.2% in 2H20 (1H20: 8.8% decline).

Within this, IAG experienced a modestly negative COVID-19 impact, primarily from a temporary fall in new business levels mainly over the period March to May, which is estimated to have reduced personal lines GWP by approaching \$50m. Retention remained strong.

Short tail lines represented nearly 89% of personal GWP in FY20, with 98% of this derived from motor and home classes. Compared to FY19, overall personal short tail GWP grew by 3.2%.

Motor GWP increased 2.0%, compared to FY19. This was driven by higher rates to meet ongoing motor claim inflation pressures, with some offset from lower new business volumes in 2H20, a by-product of COVID-19. New business activity was approximately 15% lower over the course of the March to May 2020 period but had recovered to pre-COVID levels during June.

Overall motor volumes were slightly lower than FY19, and comprised:

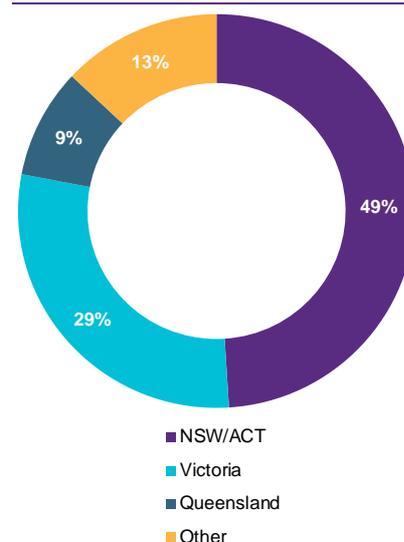
- Sound growth in Victoria;
- Minor contraction in NSW; and
- Some volume loss in other states, with the exception of Tasmania.

Home GWP growth gathered pace over the course of the year, with improved volume performance a feature of 2H20, despite an adverse COVID-19 impact on new business volumes. Full year growth of 5.2% included an increase of 6.2% in 2H20. This outcome contained:

- Average rate increases in excess of 5%, which largely met claims inflation; and
- Relatively flat overall volumes. Further growth in Victoria was offset by lower volume in Western Australia, and to a lesser extent South Australia and Queensland. NSW volumes were flat.

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

### PERSONAL FY20 SHORT TAIL GWP – STATE/TERRITORY



Softer motor GWP growth in 2H20, including COVID-19 impact on new business

## 4. AUSTRALIA

GWP from niche and other short tail lines, comprising boat, caravan, classic car and other specialty products, was lower than FY19. Weakness was largely confined to 2H20, where the small travel insurance portfolio suffered a severe COVID-19-influenced downturn in activity.

In personal, the main brands' online sales channel continued to grow over the course of FY20. For the full year, NRMA Insurance conducted approximately 34% of new business sales and renewals online.

Customer-initiated digital self-service interactions for the combined NRMA Insurance, SGIO and SGIC brands increased by over 14%. This reflects a continued focus on enhancing the digital experience, as well as the impact from COVID-19 on customer behaviours.

Other features of personal short tail GWP performance were:

- An overall increase in brokered personal products, with strong growth via the intermediated partnership with Steadfast partially offset by lower 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 7.5% lower than FY19, reflecting scheme and competitive changes in the three states or territories of operation. The pace of reduction in GWP eased in 2H20 as the impact of lower rate levels became less pronounced. Overall CTP GWP housed:

- A 7.5% drop in NSW GWP, generated by the cumulative impact of a sequence of price reductions (March 2019, November 2019 and March 2020), as well as lower volume. IAG's share of NSW CTP registrations (on a 12-month rolling average basis) has reduced to 31.8% (FY19: 33.3%);
- An increase of nearly 3% in ACT GWP, with strong volume growth largely offset by lower prices as the new scheme came into force on 1 February 2020. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) increased to 64.7% (FY19: 58%); and
- A fall of nearly 20% in South Australian GWP, reflecting regulatory-imposed floor and ceiling prices as the market became fully competitive from 1 July 2019. All insurers are currently priced at the regulatory floor. SGIC has increased its share of the South Australian CTP market from 20% at the end of FY19 to approximately 22%.

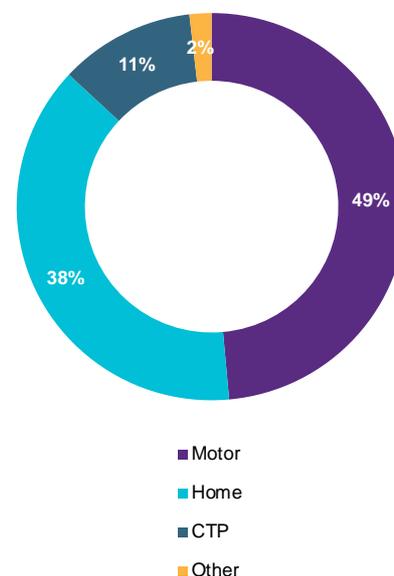
### Commercial

IAG sells a range of commercial insurance products across Australia, primarily under the CGU, WFI, NRMA Insurance, 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	2H20 A\$m	FY19 A\$m	FY20 A\$m	GWP Growth FY20 vs FY19
Short Tail	982	980	914	958	1,962	1,872	(4.6%)
Long Tail	425	486	430	488	911	918	0.8%
<b>Total GWP</b>	<b>1,407</b>	<b>1,466</b>	<b>1,344</b>	<b>1,446</b>	<b>2,873</b>	<b>2,790</b>	<b>(2.9%)</b>

Commercial GWP decreased by 2.9% to \$2,790m, compared to FY19 (\$2,873m). This follows a 4.5% reduction in 1H20, and includes a second half decline of only 1.4%, despite a modestly adverse COVID-19 impact in that period.

### PERSONAL FY20 GWP - CLASS



### PERSONAL FY20 LONG TAIL GWP - STATE/TERRITORY



## 4. AUSTRALIA

The full year outcome comprised:

- Lower GWP as a result of exited underwriting agency and fleet leasing activities, accounting for a combined drop in related GWP of over \$90m;
- Further targeted rate increases across all business classes;
- Reduced volumes in packaged portfolios;
- Higher retention in other key portfolios; and
- Lower new business volumes.

Some COVID-19 related impacts on GWP were observed in 2H20, mainly in packaged product portfolios through lower new business opportunities. This is estimated to have reduced 2H20 GWP by over \$10m.

Business activity in the important June renewals period was in line with expectations, with no material volume or retention impact evident from COVID-19 influences.

Excluding exited business effects, like-for-like commercial GWP in FY20 was relatively flat compared to FY19, comprising ongoing rate increases and a similar degree of volume loss. An improving trend was evident over the course of the year, with a small like-for-like reduction in GWP in 1H20 converting to a small increase in 2H20.

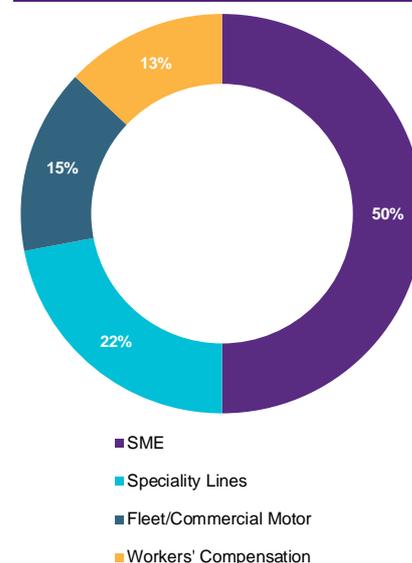
Average rate increases of around 5.5% were consistently achieved across FY20, in line with the expectations held at the beginning of the year. Rate movements have continued to vary by segment, with portfolios such as liability, construction and engineering, property and motor experiencing up to double digit increases, and commoditised packaged products achieving single digit rate increases. While delivering appropriately priced business, these increases have adversely impacted volumes.

Other features of commercial GWP performance in FY20 were:

- A stabilisation of property volumes 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;
- A decrease in workers' compensation GWP of 6%, compared to a particularly strong performance in FY19. Reduced GWP in FY20 primarily reflected lower multi-year policy volumes and focused portfolio activity in the ACT and Tasmanian schemes;
- A 9% reduction in intermediated business package GWP as a result of reduced new business and retention volumes in an increasingly competitive market. The COVID-19 impact on business package GWP was relatively modest, helped by a number of government support measures;
- Crop volumes were adversely impacted by the drought in NSW and Queensland. Owing to the severe drought conditions, IAG limited the level of price increases imposed on affected areas;
- After allowing for divested agency interests, underwriting agencies delivered GWP growth of 9% compared to FY19. The main driver was the NTI heavy haulage and marine insurance joint venture, which continues to perform strongly; and
- The direct portfolio achieved modest GWP growth. Direct represented 25% of commercial GWP in FY20.

Long tail classes were 33% of commercial GWP in FY20.

COMMERCIAL FY20 GWP – CLASS



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## 4. AUSTRALIA

### Customer Initiatives

The Australian business has continued to enhance its product offering, strengthen its partnerships and improve the quality of its customer service.

In 2H20 this included a series of initiatives to provide assistance to personal and commercial customers suffering hardship as a result of COVID-19. Forming part of a Customer Help Program, so far around 80,000 policies have been amended to assist customers. The support measures comprise:

- Access to premium reductions and deferrals;
- The option to change premium payments from annual to pay-by-the-month instalments for no additional cost;
- Flexible excess options in the event of a claim;
- Waived cancellation and administration fees for personal customers who cancel their policies;
- Travel insurance refunds for any unused portion of premiums, including where customers have yet to travel and have not claimed;
- Deferred premium payments for up to six months for small businesses experiencing financial hardship;
- Refunds on the unused portion of premiums for small businesses which cancel their insurance, with no administration or cancellation fees;
- Small businesses which need to close premises being able to maintain full insurance cover on those premises with no changes to premium; and
- Reduced timeframes in making payments to suppliers from 30 to no more than 15 business days.

IAG also introduced a number of initiatives to support its broker partners during the COVID-19 pandemic, including:

- Free counselling services via Assure;
- Access to Lifeline Accidental Counsellor training programs;
- Professional development (including a webinar series with National Insurance Brokers Association);
- Digital marketing campaign support with digital agency, OneAffiniti; and
- A new CGU speaker webinar series exclusively for broker partners.

Other customer initiatives during the year included:

- Further enhancement of SME customers' digital experience, including the launch of CGU's Robo Advice tool, which uses 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. The campaign attracted heightened interest in the CGU website and strong engagement on social media;
- 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. This provides further brand representation between IAG and NRMA to support a joint message of making the world a safer place through the combined product offerings of insurance and roadside assistance and motoring services; and
- 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 provides customers with 24/7 assistance for their plumbing and electrical emergencies, with a rapid response from trusted and accredited tradespeople.

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Range of customer support measures to address financial hardship induced by COVID-19

## 4. AUSTRALIA

### REINSURANCE EXPENSE

Australia's reinsurance expense was \$3,694m, compared to \$3,671m in FY19. The underlying reinsurance expense was approximately 2% higher than FY19, reflecting the combination of:

- Modest aggregate growth in personal lines offset by lower commercial exposure;
- Increased cover at the top end of the calendar 2019 and 2020 main towers, extra drop-down covers and the cost of replacement covers purchased following heavy peril activity early in calendar 2020;
- Lower renewal costs for commercial line per risk excess of loss cover; and
- Slightly higher catastrophe reinsurance rates, stemming from the calendar 2020 renewal.

Slightly higher underlying reinsurance expense

### CLAIMS

Australia's FY20 immunised loss ratio of 70.1% exceeded FY19 (64.4%), with practically all of the difference registered in the second half of the financial year.

Compared to FY19, the FY20 immunised claims ratio included:

- A greater than \$200m increase in net natural peril claim costs;
- An adverse swing in prior period reserving of nearly \$180m, to a net strengthening position; and
- A moderately positive impact from COVID-19 in 2H20.

Higher immunised loss ratio owing to adverse peril and reserving movements – moderately positive COVID-19 impact

Excluding these itemised effects, Australia's underlying claims ratio registered a small improvement over FY19.

The reported loss ratio of 71.3% contained an adverse risk free discount rate adjustment of \$69m, compared to an adverse effect of \$123m in FY19.

### Reserve Movements

Prior period reserve strengthening of \$64m was in sharp contrast to the \$115m of reserves released in FY19. This outcome reflected much stronger claim development across long tail classes than observed in recent years, together with the emergence of an increasing number of large claims in excess of expectations.

Much stronger claim development across long tail classes

The 2H20 net strengthening included the following ingredients:

- Over \$40m of strengthening related to liability classes, predominantly in the areas of silicosis and molestation;
- Nearly \$20m of strengthening of professional risk-related reserves to reflect general portfolio deterioration from claim frequency, average claim sizes and large claim emergence;
- Over \$15m of workers' compensation reserve strengthening, owing to increased duration of weekly benefit claimants, legislative changes in the Tasmanian scheme and large claim emergence; and
- An offset from around \$25m of CTP releases, which met expectations.

RESERVE MOVEMENTS	1H19	2H19	1H20	2H20	FY19	FY20
Australia	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases/(strengthening)	82	33	(7)	(57)	115	(64)
<b>Impact on insurance margin</b>	<b>2.9%</b>	<b>1.2%</b>	<b>(0.2%)</b>	<b>(2.0%)</b>	<b>2.0%</b>	<b>(1.1%)</b>

## 4. AUSTRALIA

### Natural Perils

Losses from natural perils (net of reinsurance) totalled \$826m, which was \$271m higher than the year's allowance. This reflected severe natural peril activity over the course of the year, dominated by the following events:

- A sequence of severe bushfires, predominantly in 1H20, which collectively contributed over \$170m of net claim costs;
- A net claim cost of \$169m from the severe hailstorm event which impacted parts of Melbourne, Canberra and Sydney in January 2020; and
- The east coast low in February 2020 which produced a net claim cost of \$127m.

Combined, these accounted for approaching 60% of Australia's net natural peril claim costs in FY20.

NATURAL PERILS	1H19	2H19	1H20	2H20	FY19	FY20
Australia	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Net natural peril claim costs	(409)	(203)	(362)	(464)	(612)	(826)
Natural peril allowance	262	263	277	278	525	555
<b>Impact on insurance margin</b>	<b>(147)</b>	<b>60</b>	<b>(85)</b>	<b>(186)</b>	<b>(87)</b>	<b>(271)</b>
<b>Impact on insurance margin</b>	<b>(5.2%)</b>	<b>2.1%</b>	<b>(3.0%)</b>	<b>(6.5%)</b>	<b>(1.5%)</b>	<b>(4.7%)</b>

### Claims Experience

Australia's underlying claims ratio (excluding reserve movements, natural perils and discount rate adjustments) was 54.6%, compared to 55.6% in FY19.

This includes a moderately positive impact from COVID-19-related claim effects in 2H20, comprising:

- A net benefit from lower motor frequency, with offsetting claim costs from other classes, notably travel and landlords' insurance; and
- Inclusion of a provision for potential COVID-19 claim costs that are highly uncertain, sit within a wide range and are estimated on a probability-weighted basis. This accords with accounting requirements and spans potential business interruption, landlords' and other insurance class impacts, including the estimated impact of an economic downturn on the settlement of long tail claims.

Benefits from lower motor claim frequency were particularly evident during the months of April and May 2020. More recent weeks have seen a rebound in motor claim frequency as lockdown requirements have generally eased, however present lockdown conditions do differ considerably by state resulting in a high degree of variability in frequency trends.

The provision for potential COVID-19 claim impacts includes allowance for possible business interruption claim exposure. It remains IAG's view that the intent to exclude pandemics from business interruption cover is clear.

Excluding COVID-19 effects, short tail personal claims experience in FY20 was characterised by:

- Relatively stable average home claim costs despite inflationary increases in property repair costs and a small increase in larger value claims;
- Continued reduction in motor frequency throughout the year;
- Increased average motor collision costs, the main factor being the continued rise in the proportion of total losses; and
- Deterioration in intermediated home portfolios, with increased volatility in average claim size.

Unfavourable net natural peril experience, following sequence of major events

Moderately positive claims impact from COVID-19 factors

Rebound in motor frequency since May, but subject to variability by state

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## 4. AUSTRALIA

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

Commercial short tail showed deterioration against FY19 claims experience, reflecting the net impact of:

- Adverse business package performance from a combination of higher frequency, a greater number of fire losses and a higher average claim size in 2H20;
- Rural portfolios performing broadly in line with FY19, with some improvement seen in 2H20 from a reduction in both working and large losses compared to 1H20; and
- A small number of larger losses in packaged portfolios in 2H20 compared to 1H20, with overall improvement against FY19.

Commercial long tail's underlying claims performance was adverse to FY19 as a result of:

- Higher claim development patterns in professional risks;
- Increased large loss experience in the Pacific Indemnity agency business; and
- Adverse liability trends reflecting the net effect of a change in claims modelling for bodily injury claims to a longer-term average view.

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.

As part of its enhanced motor repair model, IAG has established two new businesses to deliver improved customer experience:

- Repairhub is a majority-owned joint venture with RACV and two repair partners, to improve the consistency and quality of repairs as well as customer experience by getting cars back on the road quickly. The business commenced operations in April 2019 and presently covers seven sites in metropolitan centres, with planned expansion to double its footprint in FY21; and
- In February 2020, IAG completed the acquisition of the MotorServe business to perform both its existing car servicing activities as well as customer hub functions. Customer hubs will provide a one-stop shop for customers, ensuring better outcomes for those getting cars serviced or repaired, bringing together a range of services to include vehicle assessment, improved repair experience as well as onsite mobility options. There are presently six customer hub sites in operation with plans to expand to a further ten sites in FY21.

Despite the challenges flowing from heavy peril activity and the COVID-19 pandemic in FY20, further improvement to the overall claims experience has been achieved via:

- Continued enhancements to digital lodgement capability;
- Increased use of the pay online platform, allowing customers to pay excesses online via the website or self-service centre;
- The introduction of a dedicated Major Event team with a clear event management strategy delivering industry-leading event responses;
- Implementation of the Re-imagined Motor Total Loss experience using machine learning to predict total loss claims at time of lodgement with above 90% accuracy, and provide information to customers early in the claim process;

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Planned expansion of Repairhub and MotorServe businesses, as part of enhanced repair model

## 4. AUSTRALIA

- Automation-driven efficiency, with examples being automated customer responses and the use of a Virtual Assistant to assist with digital claim lodgement; and
- Simplification of claim processes to fast track claims management and provide additional support to customers who need it.

### EXPENSES

Australia's reported expenses totalled \$1,347m in FY20, compared to \$1,328m in FY19. The small increase includes:

- Increased operating expenses stemming from COVID-19, including those incurred in the movement of the vast majority of IAG's workforce to a 'working from home' basis and from the temporary unavailability of offshored roles owing to local lockdown requirements;
- Increased regulatory and compliance costs; and
- Some offset from further net benefits from optimisation initiatives.

The reported expense ratio of 23.5% was identical to FY19, with some deterioration evident in 2H20 from COVID-19-related imposts. On an ex-leaves basis the administration ratio of 11.3% was similar to FY19.

### INSURANCE PROFIT

Australia reported an insurance profit of \$420m, down from \$842m in FY19. The reported insurance margin correspondingly fell from 14.9% to 7.3%. This movement reflects the net effect of:

- A severe shift in prior period reserving, from releases representing 2.0% of NEP in FY19 to an FY20 net strengthening equivalent to 1.1% of NEP;
- A greater than \$200m increase in net natural peril claim cost, compared to FY19, with an associated reduction in margin of 3.6%;
- An adverse movement in credit spread impacts of \$40m; and
- A modest net negative from other COVID-19 influences, embracing a moderately positive claims impact and higher operating expenses.

INSURANCE MARGIN IMPACTS	1H19	2H19	1H20	2H20	FY19	FY20
Australia	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	82	33	(7)	(57)	115	(64)
Natural perils	(409)	(203)	(362)	(464)	(612)	(826)
Natural peril allowance	262	263	277	278	525	555
Credit spreads	(24)	18	7	(53)	(6)	(46)
Reserve releases	2.9%	1.2%	(0.2%)	(2.0%)	2.0%	(1.1%)
Natural perils	(14.4%)	(7.2%)	(12.6%)	(16.3%)	(10.8%)	(14.4%)
Natural peril allowance	9.2%	9.3%	9.6%	9.8%	9.3%	9.7%
Credit spreads	(0.8%)	0.6%	0.2%	(1.9%)	(0.1%)	(0.8%)

Australia's underlying margin of 14.9% was slightly lower than FY19 (15.5%). This included a weaker 2H20 outcome of 13.9%, which was over 200bps softer than 1H20 owing to the combination of:

- A small net negative on underwriting profit from COVID-19 effects;
- Adverse performance in packaged portfolios mainly due to a small number of larger losses;
- A deterioration in the performance of long tail commercial lines owing to the application of higher loss ratios; and
- Lower interest rates driving reduced investment income and not fully compensated for in pricing actions.

Additional expenses from COVID-19 incurred in 2H20

Lower FY20 reported margin owing to severe peril and reserving impacts

Lower 2H20 underlying margin from range of factors

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## 4. AUSTRALIA

### FEE-BASED INCOME

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

- IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government;
- Investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives; and
- The car servicing aspect of the MotorServe acquisition, which was purchased during 2H20.

Total net income from fee-based operations in FY20 was a loss of \$11m (FY19: \$1m loss), including a second half loss of \$17m. This housed:

- A positive contribution of \$11m (FY19: \$13m) from the Victorian workers' compensation business. An improved underlying performance was achieved after allowing for \$5m of prior period fee income (FY19: \$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. FY21 is the fifth year of the contract;
- Net costs associated with new business initiatives of approximately \$19m, including those arising from the Safer Journeys crash detection and response service; and
- An initial loss of approximately \$3m from MotorServe's car servicing activities.

### MARKET REGULATION AND LEGISLATIVE REFORM

The Government has agreed to act on all of 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. On 8 May 2020, the Government announced a six-month deferral to that timeline as a result of the significant impacts of COVID-19.

Actions already in progress on the implementation include:

- The passing of legislation in February 2020, which will commence on 5 April 2021, extending **unfair contract terms** to the insurance industry; and
- The release of Exposure Draft legislation (for consultation) on 31 January 2020 on the following measures which will be introduced to Parliament by 31 December 2020:
  - **Making insurance claims handling a 'financial service'** and subject to oversight by ASIC;
  - **Prohibiting hawking** of financial products;
  - Mandating **deferred sales for add-on insurance products** (including add-on insurance sold by car dealerships, which IAG exited in 2017);
  - 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;
  - Amending the *Insurance Contracts Act*, for consumer insurance contracts, replacing duty of disclosure with a **duty to take reasonable care not to make a misrepresentation to an insurer**; and
  - **Strengthening breach reporting** requirements for Australian financial services licensees.

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Increased fee-based loss reflecting new business investments

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Royal Commission-related legislation in train in several areas which are expected to affect the insurance industry

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## 4. AUSTRALIA

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

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

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

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

- The *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018* received Royal Assent on 5 April 2019 and introduces **design and distribution obligations** (commencing 5 October 2021) that require the development of financial products that meet the needs of consumers in their intended target market. It also gives ASIC a **product intervention power** to take action where financial and credit products result, or could result, in significant consumer detriment. In June 2020, ASIC released a Regulatory Guide on the administration of that power;
- In December 2019, ASIC initiated consultation on draft guidance for financial product **design and distribution obligations**. A Regulatory Guide will be released in the second half of calendar 2020;
- 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 by 30 November 2020. A first Interim Report, 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 in December 2019 made a series of new findings and considered further measures, including government reinsurance pools, government insurers, direct subsidies, mitigation programs and insurance 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 feasibility study;

- In February 2020, the Federal Government established the **Royal Commission into National Natural Disaster Arrangements** after the extreme bushfire season. The Commission is examining co-ordination, preparedness for, response to and recovery from disasters as well as improving resilience and adapting to changing climatic conditions and mitigating natural disaster impact. It is also considering the legal framework for Commonwealth involvement in responding to national emergencies. The Commission's report and recommendations will be delivered by 28 October 2020. IAG's representative appeared before the Committee in May 2020 as an expert witness in the field of natural perils;
- The Finance and Public Administration References Committee invited IAG to give evidence at a public hearing in relation to the **Senate Standing Committee on Finance and Public Administration's Inquiry 'Lessons to be learned in relation to the Australian bushfire season 2019-2020'**. IAG appeared before the Committee on 10 July 2020. The Committee is to report by the last sitting day in 2021;

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

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IAG representatives have appeared in front of Government bushfire-related enquiries

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## 4. AUSTRALIA

- In February 2020, APRA wrote to all of its regulated entities stating its intention to develop and consult on a **climate change financial risk prudential practice guide** (PPG). This industry guidance is not intended to establish new obligations, but rather will be designed to assist entities in complying with their existing prudential requirements. It will cover areas relevant to the prudent management of climate change financial risks, including aspects of governance, strategy, risk management, metrics and disclosure. APRA is consulting on the draft PPG in mid-2020 and is aiming to publish final guidance before the end of the year;
- In July 2019, the Parliament of South Australia's Economic and Finance Committee commenced an **Inquiry into the motor vehicle insurance and repair industry in South Australia**. IAG appeared before the Committee in November 2019, and at additional hearings in July 2020. The Committee will report in calendar 2020;
- 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 a Final Report was handed to the Government on 30 June 2020. Also, the Victorian Government established a Royal Commission into Victoria's Mental Health System, which released an Interim Report in November 2019 and is 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 released a new regulatory guide on *Internal dispute resolution* on 30 July 2020 and has given industry until 5 October 2021 to comply with the new standards and requirements;
- 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 First Report in November 2019 and a Final Report in April 2020. The Final Report focused on the issue of flammable cladding on NSW buildings, the role of private certification in protecting building standards and the role of strata committees in responding to building defects. In June 2020, the NSW Parliament passed a suite of building reforms which give the Building Commissioner a broad range of powers, including the ability to issue stop work orders, prevent strata plan registration and occupation certificates, and to issue fines;
- In September 2019, the Senate Committee Inquiry into **Financial Technology and Regulatory Technology** in Australia was announced. The Committee is to present its Final Report in April 2021;
- In August 2019, the Australian Parliamentary Joint Select Committee on Road Safety announced it would inquire and report on steps that can be taken to reduce **Australia's road accident rates**, trauma and deaths. The Committee presented a short Interim Report on 31 July 2020 and will present its Final Report by 31 October 2020. IAG appeared before the Committee on 21 July 2020;
- Insurers are implementing a **new General Insurance Code of Practice**. Members of the Insurance Council of Australia (ICA) and other Code participants started to transition to the new Code from 1 January 2020, with all Code signatories to be compliant by 1 January 2021. All Code signatories were required to introduce and implement a publicly available policy to support customers affected by family violence by 1 July 2020. IAG released its first Family and Domestic Violence Policy on that date;

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## 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**. On 29 April 2020, IAG's CEO, Peter Harmer, appeared before the Committee;
- In January 2020, the Treasurer announced an **Inquiry into Future Directions for the Consumer Data Right**. The Inquiry commenced in January 2020 and an Issues Paper was released in March 2020. The Inquiry will report to the Treasurer in late calendar 2020;
- On 1 July 2020, a Draft Report by the independent panel on the **NSW Government's Federal Financial Relations Review** set out a roadmap to realign financial relations between the Commonwealth and the States. Included in the recommendations was **insurance taxation reform**. Consultation is ongoing to ensure that the Review's recommendations are fully informed by the community. The Review invited comments by 31 July 2020 to inform its Final Report, which is expected to be delivered in September 2020;
- On 12 July 2020, the South Australian Government released an **Independent Review into the 2019/20 South Australian Bushfire Season** and, along with it, an action plan for delivering on the recommendations made. The Report made 15 recommendations including:
  - That the government consider removing stamp duty from home insurance;
  - Government agencies share risk modelling data with the ICA;
  - Better coordination of public information and warnings including evacuation plans; and
  - The provision of a single source of information about the location and direction of fires;
- On 4 July 2020, the NSW Government announced it is seeking feedback from the motor vehicle sales, recycling and repair sectors as it undertakes a **review of the Motor Dealers and Repairers Act 2013**. Submissions close on 14 August 2020. A report will be submitted to the Minister for Better Regulation and Innovation, and a final report tabled in both Houses of Parliament by 1 December 2020; and
- On 28 July 2020, the Australian Small Business and Family Enterprise Ombudsman announced an **inquiry into the practices of the insurance industry impacting small business** and whether insurance products are fit for the purposes of small business. The Inquiry will examine:
  - The availability and coverage of insurance policies provided to small businesses;
  - The role of brokers in getting the right coverage;
  - The use of contract changes that have not been agreed to and their potential treatment as Unfair Contract Terms;
  - The timeliness of payment of insurance payouts and the effectiveness of dispute resolution frameworks for insurance disputes; and
  - The effectiveness of relevant codes of conduct and legislation, including the adequacy of applicable penalties.

A Final Report is expected to be released by December 2020.

# 5. NEW ZEALAND

## FINANCIAL PERFORMANCE

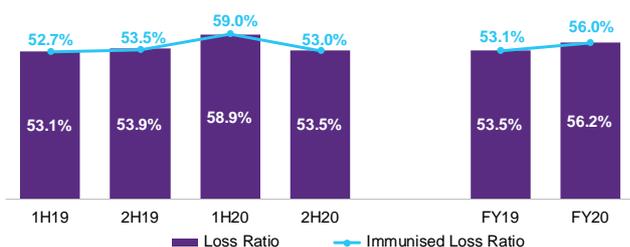
NEW ZEALAND	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
<b>Gross written premium</b>	<b>1,268</b>	<b>1,392</b>	<b>1,348</b>	<b>1,406</b>	<b>2,660</b>	<b>2,754</b>
Gross earned premium	1,277	1,327	1,357	1,376	2,604	2,733
Reinsurance expense	(503)	(520)	(533)	(565)	(1,023)	(1,098)
<b>Net earned premium</b>	<b>774</b>	<b>807</b>	<b>824</b>	<b>811</b>	<b>1,581</b>	<b>1,635</b>
Net claims expense	(411)	(435)	(485)	(434)	(846)	(919)
Commission expense	(81)	(98)	(90)	(92)	(179)	(182)
Underwriting expense	(98)	(104)	(99)	(124)	(202)	(223)
<b>Underwriting profit</b>	<b>184</b>	<b>170</b>	<b>150</b>	<b>161</b>	<b>354</b>	<b>311</b>
Investment income on technical reserves	9	27	6	13	36	19
<b>Insurance profit</b>	<b>193</b>	<b>197</b>	<b>156</b>	<b>174</b>	<b>390</b>	<b>330</b>

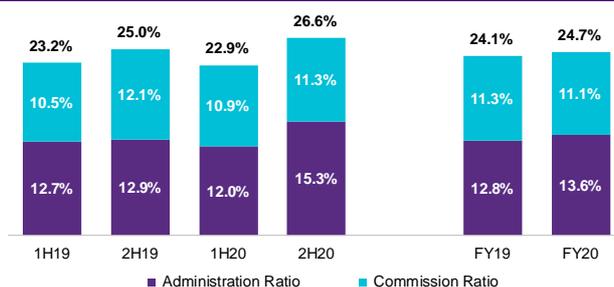
Insurance Ratios	1H19	2H19	1H20	2H20	FY19	FY20
Loss ratio	53.1%	53.9%	58.9%	53.5%	53.5%	56.2%
Immunised loss ratio	52.7%	53.5%	59.0%	53.0%	53.1%	56.0%
Expense ratio	23.2%	25.0%	22.9%	26.6%	24.1%	24.7%
Commission ratio	10.5%	12.1%	10.9%	11.3%	11.3%	11.1%
Administration ratio	12.7%	12.9%	12.0%	15.3%	12.8%	13.6%
Combined ratio	76.3%	78.9%	81.8%	80.1%	77.6%	80.9%
Immunised combined ratio	75.9%	78.5%	81.9%	79.6%	77.2%	80.7%
Reported insurance margin	24.9%	24.4%	18.9%	21.5%	24.7%	20.2%
Underlying insurance margin	20.0%	18.9%	18.9%	18.3%	19.5%	18.6%

## INSURANCE RATIOS

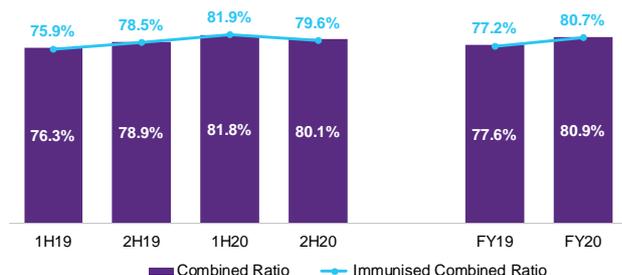
### LOSS RATIO



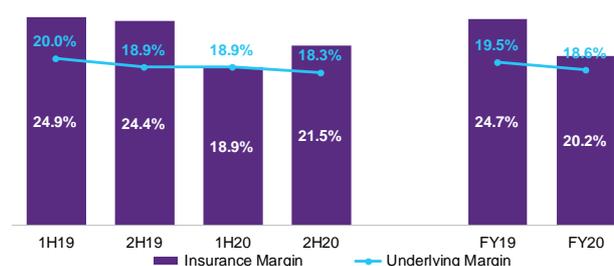
### EXPENSE RATIOS



### COMBINED RATIO



### INSURANCE MARGIN

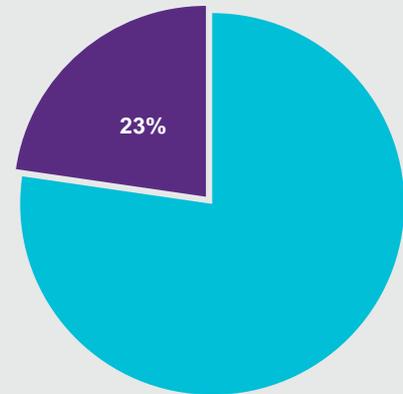


## 5. NEW ZEALAND

### 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 2.4% (reported GWP growth of 3.5% after a favourable foreign exchange translation effect)
- GWP growth driven by rate increases across personal and commercial lines, coupled with volume growth in commercial lines
- Lower 2H20 local currency GWP growth of 0.8% after absorption of modest adverse COVID-19 impact
- Strong underlying operating performance maintained
- Modestly favourable COVID-19 impact on 2H20 margin, from combined motor frequency benefit / AMI branch closure cost
- Lower reported margin dampened by Canterbury hailstorm event

New Zealand - % Group GWP



### PREMIUMS

New Zealand's local currency GWP grew by 2.4% in FY20, to NZ\$2,904m (FY19: NZ\$2,836m). This outcome covered:

- Strong GWP growth from Business, driven by volume increases across all key commercial line portfolios and higher rates in commercial property and liability; and
- Consumer GWP holding to FY19 levels, with growth experienced in the commercial motor and AMI private motor portfolios through increased rates and volume.

COVID-19 is estimated to have adversely impacted 2H20 GWP by approximately \$20m, primarily from lower new business volumes.

In reported terms, New Zealand recorded GWP growth of 3.5%, to \$2,754m, following a modestly favourable foreign exchange translation effect skewed to the front half of the financial year.

### Business

Business represented 44% of New Zealand's GWP in FY20 (FY19: 42%), with local currency GWP growth of 5.4%. This was led by the commercial property portfolio, which achieved strong premium growth from a combination of increased volume and higher rates. The commercial motor portfolio also delivered strong volume growth, while rates were relatively flat.

Prior to the COVID-19 lockdown restrictions, both new business levels and retention rates were ahead of prior year levels across all key commercial portfolios, with the exception of liability retention, which was slightly down.

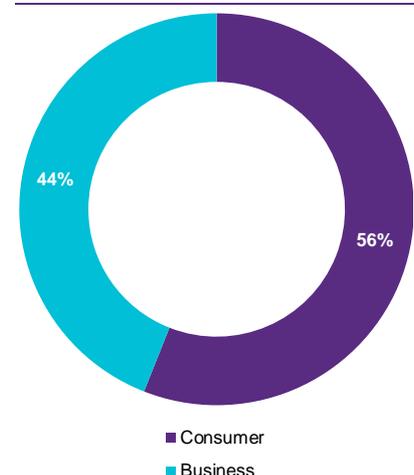
Despite challenging economic conditions during and post the COVID-19 lockdown period, commercial lines retention remained ahead of prior year levels in the motor portfolio, while the property and liability books saw a small reduction on FY19 levels. New business levels across all key commercial line books were ahead of prior year levels post the COVID-19 lockdown period.

Business' personal lines experienced a small decrease in full year GWP compared to FY19. This reflected volume loss as the division reinforced its strict underwriting disciplines and appropriately priced for risk.

2.4% increase in local currency GWP

Strong Business GWP growth of 5.4%

NEW ZEALAND FY20 GWP - DIVISION



## 5. NEW ZEALAND

### Consumer

Consumer represented 56% of New Zealand's GWP in FY20 (FY19: 58%) with local currency GWP similar to FY19, and modest underlying growth after normalising for Earthquake Commission (EQC) changes. Growth was led by the AMI brand through rate and volume increases in the private motor portfolio.

Retention rates in Consumer's direct brands (AMI and State) remained strong, with all personal lines portfolios ahead of FY19 levels, prior to the COVID-19 lockdown period. Direct home-owner new business levels were also ahead of FY19 over the same period, while home contents and private motor were slightly down on prior year levels.

As experienced pre-lockdown, direct home-owner new business levels have continued to track ahead of prior year levels post the lockdown, however both the home contents and private motor portfolios saw a reduction in new business volumes in the final quarter of FY20 from COVID-19 influences.

Personal lines products written through the bank partners distribution channel achieved slight GWP growth, driven by higher rates. Pre-lockdown retention was ahead of FY19 levels, while post-lockdown retention has improved across all key portfolios and is ahead of the prior year level. FY20 has seen lower personal lines new business levels through the bank channel.

Consumer's commercial lines portfolio continued its solid GWP performance throughout FY20, delivering local currency growth of 2.9% compared with FY19. The commercial motor book drove this increase, achieving 6.8% growth from a combination of rate increases and higher volumes. Retention was up on the prior year, however new business volumes were lower, notably during the peak of the lockdown period.

As with many customer-facing organisations, the Consumer branch network was required to close during the lockdown period. This saw a significant increase in the number of customers contacting AMI and State via their respective websites, accelerating a long-established trend. Around 40% of all direct new business sales for personal lines are now through digital channels. Digital sales for State and AMI have seen an almost 50% uplift in the last 12 months.

### Customer Initiatives

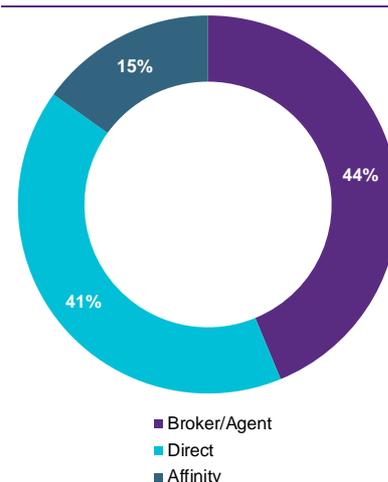
With the move to level 3 lockdown restrictions on 23 March 2020, IAG quickly responded and announced a series of measures to support business customers. These included:

- Deferred premium payments for small businesses experiencing financial hardship;
- Maintenance of full cover on small business premises which were required to close due to the impact of COVID-19, with no increase to their premium;
- Reduced payment times to suppliers from up to 30 days to no more than 15 business days; and
- Waiver of administration or cancellation fees for customers in financial hardship who cancelled their insurance policies.

In addition to the measures to support business customers, in late March 2020 IAG established a specialist Customer Care Team to further support customers in financial hardship as a result of COVID-19, across its Consumer brands.

### Consumer GWP similar to FY19

#### NEW ZEALAND FY20 GWP - CHANNEL



### Range of customer support measures announced in March 2020, in response to COVID-19

### Customer Care Team established to support customers in financial hardship

## 5. NEW ZEALAND

Recognising every customer's situation is unique, the Customer Care Team is focused on tailoring the right solution to meet their needs. To date, over 3,000 customers have contacted the Customer Care Team and have been provided with a range of solutions to support their individual needs. These measures have contributed to strong personal lines retention across the direct brands in FY20, which was up on the prior year.

In addition to the customer support packages introduced in March in response to COVID-19 impacts, IAG continues to pursue a range of customer-related initiatives.

IAG's partnership with the New Zealand Red Cross has seen it support New Zealanders and local communities on a number of initiatives since 2017. Aligned to IAG's purpose of making your world a safer place and the New Zealand Red Cross' mission to improve the lives of vulnerable people, this partnership has played an important role, particularly in recent months as the COVID-19 pandemic has put many New Zealanders in a vulnerable position. In June 2020, AMI and the New Zealand Red Cross teamed up to provide 'essential' parcels to those in need. The parcels contained a range of items, such as hygiene products, treats, blankets and wellbeing resources.

### REINSURANCE EXPENSE

New Zealand's reinsurance expense was \$1,098m, compared to \$1,023m in FY19. The underlying reinsurance expense (ex-quota shares) was nearly 20% higher than FY19, reflecting the combination of:

- Overall aggregate growth, particularly in commercial lines;
- Increased cover at the top end of the calendar 2019 and 2020 main towers, extra drop-down covers and the cost of replacement covers purchased following heavy peril activity early in calendar 2020; and
- Slightly higher catastrophe reinsurance rates, stemming from the calendar 2020 renewal.

### CLAIMS

New Zealand incurred a higher reported loss ratio of 56.2% in FY20 (FY19: 53.5%), featuring:

- Increased net natural peril claim costs of \$78m (FY19: \$15m);
- A benefit to personal lines working claims experience from COVID-19-induced lower motor frequency in 2H20; and
- An increase in large claims experience compared with FY19.

Although net natural peril costs increased significantly in FY20, they were \$8m below allowance. This compares with FY19 which experienced unusually benign perils activity, when costs were \$68m below allowance.

FY20 peril costs were dominated by the significant hailstorm which occurred on 20 November 2019 in the Canterbury region of the South Island, resulting in a net claim cost of \$49m. The storm caused significant damage in the area, with nearly half of the claim cost attributable to private motor vehicles.

Peril activity in 2H20 was relatively benign, with net claim costs roughly half the allowance for the period.

NATURAL PERILS New Zealand	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
Net natural peril claim costs	(5)	(10)	(57)	(21)	(15)	(78)
Natural peril allowance	42	41	43	43	83	86
<b>Impact on insurance margin</b>	<b>37</b>	<b>31</b>	<b>(14)</b>	<b>22</b>	<b>68</b>	<b>8</b>
<b>Impact on insurance margin</b>	<b>4.8%</b>	<b>3.9%</b>	<b>(1.7%)</b>	<b>2.7%</b>	<b>4.3%</b>	<b>0.5%</b>

Higher underlying reinsurance expense, partly influenced by aggregate growth

Higher loss ratio driven by increased perils incidence, with some offset from lower motor frequency in 2H20

## 5. NEW ZEALAND

Prior period reserve releases of \$18m were slightly higher than those recognised in FY19. The bulk of the releases occurred in 1H20 and were predominantly sourced from professional indemnity exposures to residual post-Canterbury earthquake risks.

Slightly higher prior period reserve releases

RESERVE RELEASES New Zealand	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
Reserve releases	1	13	14	4	14	18
<b>Impact on insurance margin</b>	<b>0.1%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>0.5%</b>	<b>0.9%</b>	<b>1.1%</b>

Working claims experience in FY20 was below both expectations and the same period last year, primarily as a result of lower than anticipated claims frequency in the private and commercial motor portfolios during levels 3 and 4 of the lockdown period.

While 1H20 saw increased claims frequency and average claim costs in the private motor portfolio, this was more than offset by the impact of the COVID-19 lockdown, which saw materially reduced claims frequency in the private and commercial motor vehicle portfolios from March through to May. As lockdown levels eased, motor claim frequency progressively increased and had returned to pre COVID-19 levels by June 2020.

2H20 also included increased landlords' and business interruption claims, as a result of COVID-19 effects, which partially offset the benefit from lower motor frequency.

Large claim (greater than NZ\$100,000) experience in FY20 was higher than both expectations and FY19. The increase was driven by adverse experience in the home-owner and commercial property portfolios.

### CANTERBURY EARTHQUAKE SETTLEMENTS

Good progress continues to be made with the settlement of claims associated with the FY11 Canterbury earthquake events. At 30 June 2020 over NZ\$7.2bn of claim settlements had been completed, with less than 900 claims remaining open out of more than 90,000 received.

During 2H20 IAG increased its gross reserved position on the three major earthquakes in FY11 by NZ\$100m, with all of this covered by reinsurance. Considerable legacy reinsurance protection remains for the September 2010 and June 2011 events, and approximately NZ\$480m of adverse development cover is available for the February 2011 event.

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

### EXPENSES

New Zealand's reported expenses totalled \$405m in FY20, compared to \$381m in FY19. Aside from some business growth and foreign exchange translation effects, much of the apparent growth of over 6% is a function of the following COVID-19-related events:

- The decision to close the 53-strong AMI branch network and the sole remaining State-branded store, with an associated net cost of over \$20m included in 2H20. This reflects COVID-19's acceleration of customer engagement trends, increasingly towards online or digital formats. The majority of the employees affected are being redeployed into IAG's digital teams or contact centres; and

Increased reserves for Canterbury earthquakes – NZ\$480m of ADC protection remains on February 2011 event

COVID-19-related expenses include AMI branch closure costs

## 5. NEW ZEALAND

- Increased operating expenses, reflecting costs incurred in the movement of the vast majority of IAG's workforce to a 'working from home' basis and costs stemming from the temporary unavailability of offshored roles owing to local lockdown requirements.

The FY20 administration ratio deteriorated to 13.6% (FY19: 12.8%), and to 15.3% in 2H20, owing to the above-named COVID-19 effects. If excluded, further improvement would have been evident.

The commission ratio of 11.1% was slightly lower than FY19 (11.3%).

### INSURANCE PROFIT

The New Zealand business produced an insurance profit of \$330m in FY20, compared to \$390m in FY19, translating to a lower reported insurance margin of 20.2% (FY19: 24.7%). This reflects the combination of:

- Increased net earned premium, driven by solid GWP growth in the Business division;
- Significantly higher net natural peril claim costs, centred on the Canterbury hailstorm;
- Higher large claims experience;
- Lower investment income on technical reserves, reflecting reduced interest rates; and
- A modest net benefit from COVID-19 effects, with lower motor frequency benefits countered by increased operating costs, including those related to the AMI branch network closure.

Strong underlying performance, with modest net positive from COVID-19 influences

INSURANCE MARGIN IMPACTS New Zealand	1H19 A\$m	2H19 A\$m	1H20 A\$m	2H20 A\$m	FY19 A\$m	FY20 A\$m
Reserve releases	1	13	14	4	14	18
Natural perils	(5)	(10)	(57)	(21)	(15)	(78)
Natural peril allowance	42	41	43	43	83	86
Reserve releases	0.1%	1.6%	1.7%	0.5%	0.9%	1.1%
Natural perils	(0.6%)	(1.2%)	(6.9%)	(2.6%)	(0.9%)	(4.8%)
Natural peril allowance	5.4%	5.1%	5.2%	5.3%	5.2%	5.3%

The New Zealand business continued to generate a strong underlying performance, with an FY20 underlying margin of 18.6% slightly lower than FY19 (19.5%).

A softer 2H20 outcome (vs. 1H20) included a small net benefit from COVID-19 effects, which was more than offset by higher reinsurance costs.

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

As a result of New Zealand's response to COVID-19, a number of reforms that impact the insurance industry have been delayed or put on hold due to the redirection of Ministerial and Departmental focus. Of greatest note are:

- A delay to the start of the new **Financial Advice Regime** from 29 June 2020 to 15 March 2021, with consequential changes to IAG's implementation of the new regime;
- A one-month extension to the Select Committee process for the **Financial Service Conduct Bill**, which is expected to delay its passing into law until early 2021. This Bill proposes to establish a new conduct regime for financial institutions that includes:

COVID-19 has delayed a number of planned reforms in New Zealand

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## 5. NEW ZEALAND

- Conduct-licensing for banks, insurers and non-bank deposit takers;
- A requirement that institutions meet a fair treatment standard and implement effective policies, processes, systems and controls to meet that standard;
- A prohibition on sales incentives based on volume or value targets and the creation of obligations in relation to how remuneration and any other sales incentives are designed; and
- An extension to the mandate and enforcement powers of the Financial Markets Authority (FMA) and stronger penalties for non-compliance;
- A six-month delay to the start of the Reserve Bank's **review of the Insurance (Prudential Supervision) Act**. This review aims to ensure that the Act continues to promote the maintenance of a sound and efficient insurance sector and public confidence in it. Following an initial round of consultation in 2017, the review will give priority to:
  - Who the act applies to;
  - The treatment of overseas insurers;
  - Disclosure requirements;
  - Executive accountability;
  - Solvency; and
  - Regulatory mechanisms; and
- An unspecified delay to consultation on a draft **Insurance Contracts Bill**. This Bill would seek to modernise and consolidate a range of existing insurance law into a single Act, including:
  - Placing the responsibility on insurers to ask consumers the right questions when processing new insurance policies;
  - Requiring insurance policies to be written and presented clearly;
  - 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 compliance monitoring and enforcement power to the FMA.

Most other planned reforms will likely be delayed for 6-9 months due to a combination of COVID-19 and the possible impacts of the budget and General Election (to be held in September 2020).

The report of the **Public Inquiry into the Earthquake Commission** was released in April 2020. The Inquiry sought to "learn from the experience of the Canterbury earthquakes and ensure that the Earthquake Commission is fit for purpose in future events." The report highlights a wide range of issues and makes 70 recommendations in the areas of:

- Roles and responsibilities;
- Approach to claimants;
- Assessment of damage;
- Managed repair;
- The settling of claims;
- Data and information management;
- Planning and preparedness; and
- Disputes resolution.

Some recommendations relating to information sharing and the management and settlement of claims will have public policy implications and will be picked up by the **Treasury's Review of the Earthquake Commission Act**.

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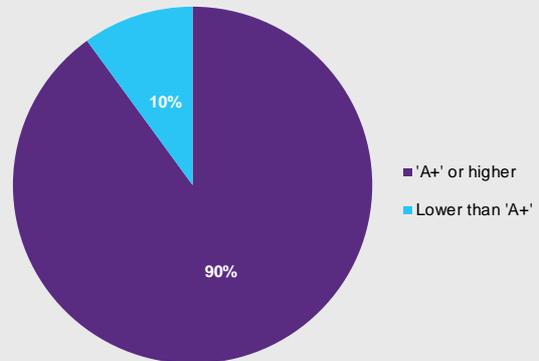
Wide range of  
recommendations from  
Public Inquiry into EQC

# 6. 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
- Transitioning all earnings volatility covers to financial year basis
- Additional FY21 aggregate protection (\$236m in excess of \$270m, post-quota share) purchased
- FY21 perils (stop-loss) cover of \$67m in excess of \$742m (post-quota share)
- Estimated post-quota share maximum event retention (MER) of \$41m at 1 July 2020 – calendar 2020 aggregate active

Counter-Party Risk - Catastrophe Program  
(as at 1 July 2020)



## 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 aim to compensate for possible deficiencies in current catastrophe models.

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

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

## MARKET ENVIRONMENT

While the past 12 months have seen a marked reduction in the number of large global catastrophic events, there has been continued development of losses from prior years. Although local natural peril losses have been significant, the overall impact on property rates for Australian and New Zealand exposure has been modest, with capacity allocated on a program-by-program basis and influenced by loss experience and view of risk. Reinsurer appetite remains more difficult to secure on the lower layers of programs, and extensive recoveries against earnings volatility covers around the globe is resulting in reinsurers quoting increased premium rates, reducing capacity and seeking higher attachment points on these protections. Overall reinsurance capital levels remain high.

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

Earnings volatility covers subject to increased reinsurer demands

## 6. REINSURANCE

### 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
- 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:

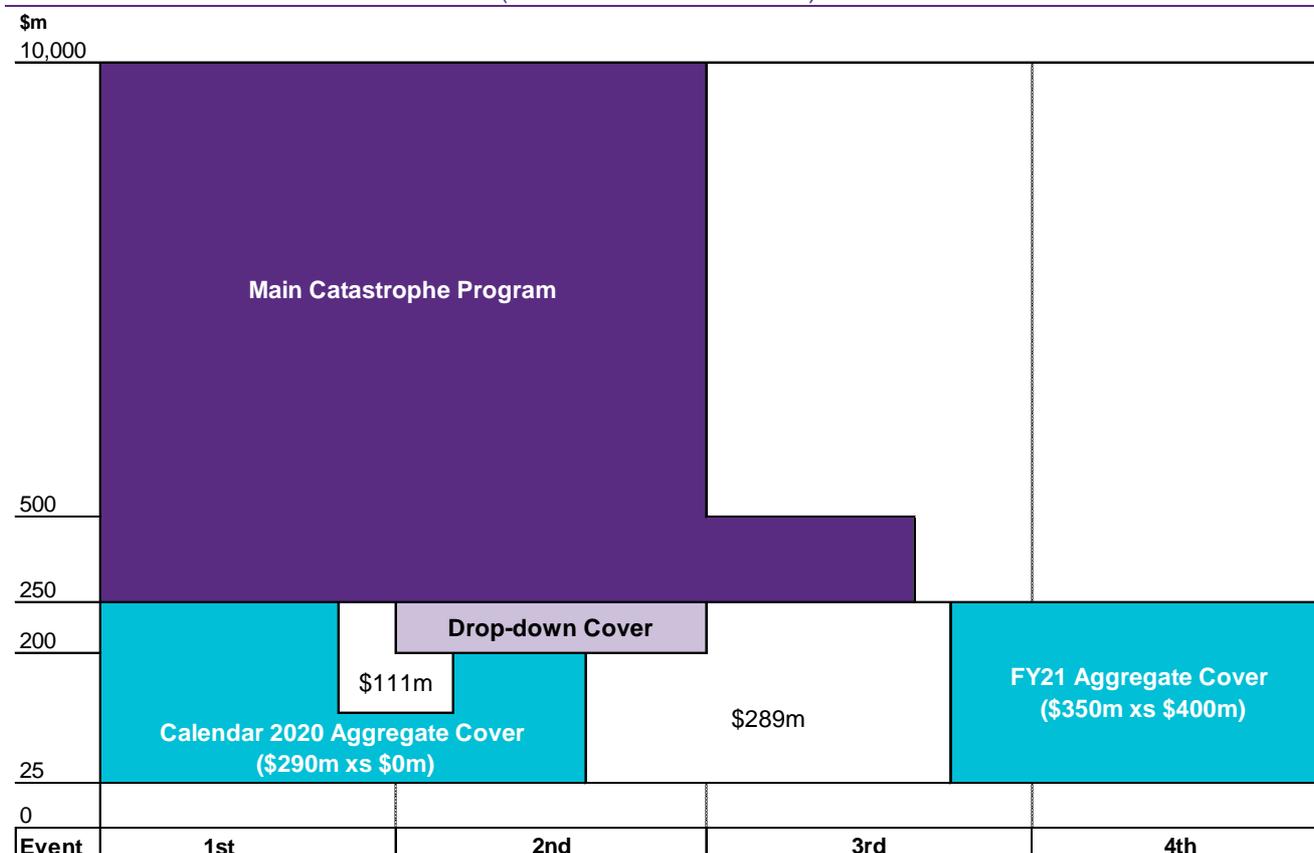
- Reduced earnings volatility, as insurance risk is effectively exchanged for a more stable fee income stream;
- A lower requirement for catastrophe reinsurance and reduced exposure to volatility in associated premium rates; and
- A reduction in IAG's regulatory capital needs.

32.5% of consolidated business remains subject to quota share

### CATASTROPHE COVER

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.

#### GROSS CATASTROPHE REINSURANCE (CALENDAR 2020 COVER) – AS AT 1 JULY 2020



## 6. REINSURANCE

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.

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.

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

CALENDAR 2020 CATASTROPHE REINSURANCE PROGRAM (AS AT 1 JANUARY 2020)		
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 original second event drop-down cover was fully utilised in February 2020 as a result of the east coast low event in Australia, and a similar replacement cover was purchased later that month.

In addition, the catastrophe bond which formed part of the aggregate protection was fully exhausted by the bushfire events which extended into January 2020. This was replaced for the period to 30 June 2020 only.

As at 1 July 2020, the deductible in respect of the calendar 2020 aggregate cover had been fully eroded. The amount of pre-quota share protection available has reduced from \$425m to approximately \$290m, as a result of:

- Non-replacement of the \$111m layer previously covered by the catastrophe bond arrangement; and
- Approximately \$24m of recoveries realised during 2H20.

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## 6. REINSURANCE

IAG is transitioning its aggregate catastrophe cover from a calendar to financial year basis. The revised timing avoids the intersection with peak period catastrophe activity which can disrupt the renewal process at calendar year-end.

As part of this transition, IAG has purchased an additional aggregate protection for the 12-month period to 30 June 2021. This provides \$350m of protection in excess of \$400m (\$236m in excess of \$270m, post-quota share), with the \$111m (pre-quota share) layer previously occupied by the catastrophe bond counting towards erosion of the \$400m deductible to the extent that related losses are incurred.

Qualifying events for the FY21 aggregate cover are capped at a maximum contribution of \$225m excess of \$25m per event (\$152m excess of \$17m, post-quota share) for the six months to 31 December 2020, moving to \$200m excess of \$50m per event (\$135m excess of \$34m, post-quota share) for the following six months.

This new protection will overlay the pre-existing aggregate protection for the balance of the calendar year, with the calendar year aggregate cover not being renewed in 2021.

IAG has purchased a further stop-loss protection for retained natural perils which continues to align with the financial year. This provides protection of \$100m in excess of \$1.1bn (\$67m in excess of \$742m, post-quota share) for the 12 months to 30 June 2021. The attachment point compares to the FY21 natural perils allowance of \$975m (\$658m post-quota share).

The combination of all catastrophe covers in place results in an estimated MER of \$61m at 1 July 2020 (\$41m post-quota share) based on current estimates of losses incurred in 2H20 and a gross next peril event loss in excess of \$250m. Depending on past event development, next event size and interaction with the aggregate layer previously occupied by the catastrophe bond, the estimated MER at 1 July 2020 could move higher or lower.

The relatively low estimated MER at 1 July 2020 reflects the status of the calendar 2020 aggregate protection and its fully eroded deductible.

### CTP QUOTA SHARE

IAG has a quota share agreement with Munich Re in respect of 30% of its combined CTP book. Following completion of an initial four-year period from 1 July 2016, this has been extended for a minimum period of 12 months to 30 June 2021. The agreement covers all CTP written in NSW, the ACT and South Australia. The CTP quota share runs in conjunction with the whole-of-account agreements, meaning 62.5% of IAG's CTP book is subject to quota share.

### RUN-OFF PORTFOLIO PROTECTION

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

- 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.

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Additional protection purchased, as part of transitioning of aggregate cover to financial year basis

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FY21 stop-loss protection of \$67m, excess of \$742m (post-quota share)

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CTP quota share extended for 12 months

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Run-off portfolio protections completed in FY16

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## 6. REINSURANCE

### OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protects it in all territories in which it underwrites. The majority of these were favourably renewed at 30 June 2020.

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

### COUNTER-PARTY RISK

The counter-party credit profiles for IAG's key reinsurances as at 30 June 2020 are:

- Around 90% 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.

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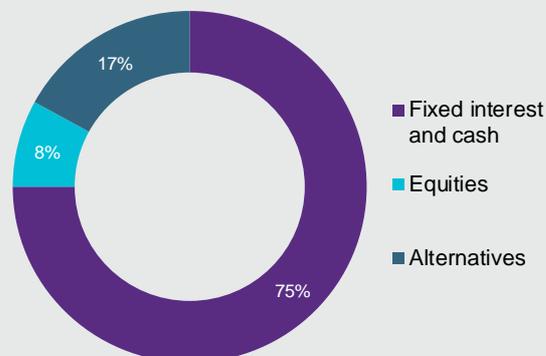
**Strong counter-party risk  
profile maintained**

# 7. INVESTMENTS

## EXECUTIVE SUMMARY

- Total investments of \$10.1bn as at 30 June 2020
- Overall investment allocation remains conservatively positioned
- Technical reserves of \$5.8bn invested in fixed interest and cash
- Shareholders' funds of \$4.3bn – increased defensive asset weighting of 75% at 30 June 2020
- Strong investment return on technical reserves
- Substantial adverse movement in shareholders' funds income (vs. FY19) owing to pandemic-influenced market volatility
- Strong credit quality: 87% 'AA' or higher

Shareholders' Funds Mix - 30 June 2020



## 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 defensively positioned, with over 89% of total investments in fixed interest and cash as at 30 June 2020.

IAG applies distinct investment strategies to its two pools of investment assets:

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

Distinct investment strategies for technical reserves and shareholders' funds

IAG's allocation to growth assets (equities and alternatives) was 25% of shareholders' funds at 30 June 2020, compared to 49% at 31 December 2019.

## INVESTMENT ASSETS

IAG's investments totalled \$10.1bn as at 30 June 2020, excluding investments held in joint ventures and associates, with 57% represented by the technical reserves portfolio. Total investments were similar in size to the position at 31 December 2019, reflecting the combined effect of:

- A small reduction in technical reserves, of \$0.2bn; and
- A net increase in shareholders' funds of \$0.3bn, representing:
  - 2H20 earnings less the interim dividend payment of \$231m in March 2020; and
  - Proceeds from the sale of the interest in SBI General in March.

Total investments of \$10.1bn: 57% in technical reserves, 43% in shareholders' funds

## 7. INVESTMENTS

GROUP INVESTMENT ASSETS	1H19 A\$bn	FY19 A\$bn	1H20 A\$bn	FY20 A\$bn
Technical reserves	6.1	6.0	6.0	5.8
Shareholders' funds	4.5	4.7	4.0	4.3
<b>Total investment assets</b>	<b>10.6</b>	<b>10.7</b>	<b>10.0</b>	<b>10.1</b>

### ASSET ALLOCATION

Since 31 December 2019, the main movement in asset mix has been a reduced weighting in growth assets within shareholders' funds. This embraces:

- The impact of the net fall in domestic and offshore equity markets;
- Mark-to-market impacts in alternative asset classes;
- Some active reallocation of funds to fixed interest and cash; and
- The placement of nearly \$600m of net proceeds from the sale of the interest in SBI General into conservative fixed interest and cash assets.

At 30 June 2020, the weighting to growth assets within shareholders' funds was 25%, compared to 49% at the end of 1H20.

IAG intends to maintain a growth assets weighting of around 30% in its shareholders' funds portfolio in the near term, in recognition of ongoing market uncertainty and volatility. In prior periods, IAG's growth asset weighting in this portfolio has typically been in the range of 40-50%.

The allocation to alternative investments currently includes higher yielding credit strategies, global convertible bonds, hedge funds and private equity. A further \$66m covers IAG's residual investment in Bohai in China (\$33m) and the cumulative investments made in the Firemark Ventures fund (\$33m). At 30 June 2020 alternative investments totalled nearly \$740m (1H20: over \$1bn), or approximately 17% of shareholders' funds.

At 30 June 2020, 0.01% of IAG's total investment portfolio (or ~\$1m) was invested in companies with higher carbon exposure risk (1H20: 0.08%). IAG's investment processes for its equity portfolios exclude or restrict exposure to companies with poor climate change risk management and support investment in those companies that are reducing their carbon risk or investing in renewables.

IAG hedges foreign currency exposures within its investment portfolios.

### ASSET ALLOCATION

	1H19 %	FY19 %	1H20 %	FY20 %	FY20 A\$m
<b>SHAREHOLDERS' FUNDS</b>					
Australian equities	8.8	6.1	7.0	3.7	159
International equities	14.6	13.4	15.6	4.7	202
Alternatives	24.3	22.6	26.6	17.1	739
Fixed interest and cash	52.3	57.9	50.8	74.5	3,211
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>4,311</b>
<b>TECHNICAL RESERVES</b>					
Fixed interest and cash	100.0	100.0	100.0	100.0	5,789
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>5,789</b>
<b>TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES</b>					
Australian equities	3.7	2.7	2.8	1.6	159
International equities	6.2	5.9	6.3	2.0	202
Alternatives	10.3	10.0	10.7	7.3	739
Fixed interest and cash	79.8	81.4	80.2	89.1	9,000
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>10,100</b>

Reduced growth asset weighting in shareholders' funds

## 7. INVESTMENTS

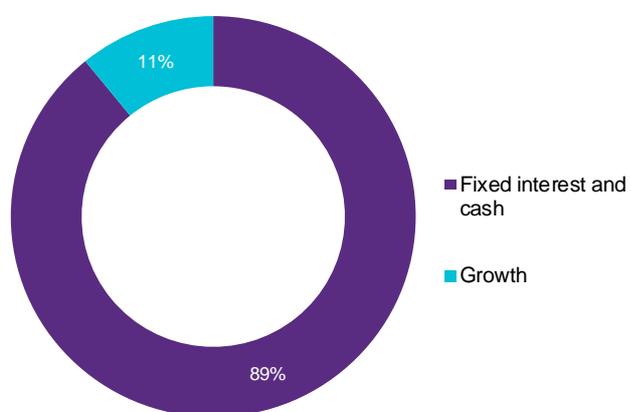
IAG's shareholders' funds portfolio included approximately \$330m of assets in respect of the IAG and NRMA Superannuation Plan at 30 June 2020. The management of this scheme is scheduled to move to a third party in November 2020. Excluding these assets, the growth assets weighting within shareholders' funds would increase to approximately 28% at 30 June 2020.

### CREDIT QUALITY OF ASSETS

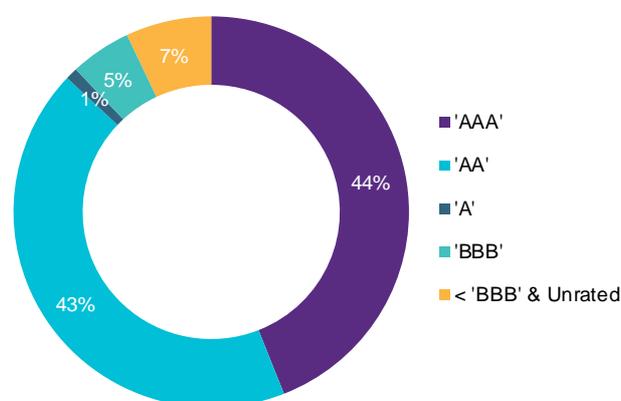
The credit quality of IAG's fixed interest and cash investments remains strong, with 87% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality

ASSET ALLOCATION – 30 JUNE 2020



CREDIT QUALITY – 30 JUNE 2020



### INVESTMENT PERFORMANCE

#### Investment Income on Technical Reserves

Investment income on technical reserves for FY20 was \$145m, compared to \$321m in FY19. This outcome was influenced by the continued downwards movement in the yield curve since 30 June 2019, and particularly in 2H20. This resulted in an unrealised capital gain of over \$70m at 30 June 2020, compared to a gain of nearly \$130m at the end of FY19.

Lower average yield on technical reserves compared to FY19

Other influences included:

- Lower average investment assets of approximately \$5.9bn (FY19: ~\$6.2bn); and
- A negative effect of \$46m from the widening of credit spreads, compared to an equivalent loss of \$6m in FY19.

The average running yield achieved in FY20 was around 100bps lower than that in FY19. The portfolio remained aligned to the average weighted duration of IAG's claims liability, of around two years.

#### Investment Income on Shareholders' Funds

Investment income on shareholders' funds was a loss of \$181m, compared to a profit of \$227m in FY19, reflecting the extreme market volatility accompanying the onset of the COVID-19 pandemic. The adverse performance was the result of:

Loss on shareholders' funds following volatile 2H20 market conditions

- The impact of volatile equity markets on portfolios in 2H20; and
- Negative mark-to-market impacts in alternative assets, comprising higher yielding credit strategies, global convertible bonds and hedge funds.

## 7. INVESTMENTS

Other factors included:

- The move to a more defensive asset allocation in 2H20; and
- An \$11m writedown of IAG's 16.9% interest in Bohai in China.

A loss of \$231m in 2H20 contrasted with a profit of \$50m in 1H20, highlighting the severe market volatility that occurred in the second half of the year.

The FY20 outcome is an improvement of approximately \$100m compared to the year-to-date loss of \$280m indicated on 4 May 2020 for the ten-month period to the end of April.

	FY19	FY20
SHAREHOLDERS' FUNDS INCOME	A\$m	A\$m
Equities	108	(93)
Alternatives	67	(99)
Fixed interest and cash	90	57
<b>Total investment return</b>	<b>265</b>	<b>(135)</b>
Foreign exchange and interest rate hedging costs	6	(16)
Fair value adjustments - Bohai / Firemark Ventures	(24)	(13)
Management fees	(20)	(17)
<b>Total shareholders' funds income</b>	<b>227</b>	<b>(181)</b>

The positive equity market performances reported in 1H20 were largely erased by the pandemic-induced correction and volatility of 2H20, which saw the S&P ASX200 Accumulation Index decline by 10.4% in the six-month period to 30 June 2020 and the MSCI World Total Return Index (AUD Hedged) post an equivalent fall of 7.1%.

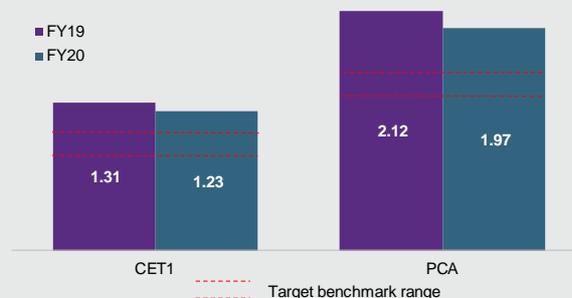
The S&P ASX200 Accumulation Index delivered a negative return of 7.4% in FY20 (FY19: +11.6%), while the MSCI World Total Return Index (AUD Hedged) returned +1.1% (FY19: +6.3%).

## 8. BALANCE SHEET & CAPITAL

### EXECUTIVE SUMMARY

- Regulatory capital of \$4.1bn
- CET1 multiple of 1.23 vs. benchmark of 0.9-1.1
- PCA multiple of 1.97 vs. benchmark of 1.6-1.8
- Debt and hybrids 32.2% 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 FY21
- S&P 'AA-' rating of core operating subsidiaries

### Regulatory Capital



### BALANCE SHEET

	1H19 A\$m	FY19 A\$m	1H20 A\$m	FY20 A\$m
<b>Assets</b>				
Cash and cash equivalents	431	538	324	405
Investments	10,605	10,684	9,947	10,100
Investments in joint ventures and associates	517	544	362	351
Trade and other receivables	3,911	4,170	4,029	4,419
Reinsurance and other recoveries on outstanding claims	5,469	5,779	6,014	6,069
Deferred insurance expenses	3,605	3,451	3,542	3,501
Goodwill and intangible assets	3,173	3,098	3,110	3,134
Assets held for sale	63	61	216	33
Other assets	992	961	1,509	1,682
<b>Total assets</b>	<b>28,766</b>	<b>29,286</b>	<b>29,053</b>	<b>29,694</b>
<b>Liabilities</b>				
Outstanding claims	10,352	10,296	10,476	10,584
Unearned premium	6,227	6,334	6,195	6,276
Interest bearing liabilities	1,976	2,080	1,532	1,526
Trade and other payables	2,835	2,680	2,610	2,800
Liabilities held for sale	27	27	17	14
Other liabilities	1,008	1,159	1,848	2,140
<b>Total liabilities</b>	<b>22,425</b>	<b>22,576</b>	<b>22,678</b>	<b>23,340</b>
<b>Net assets</b>	<b>6,341</b>	<b>6,710</b>	<b>6,375</b>	<b>6,354</b>
<b>Equity</b>				
Equity attributable to holders of ordinary shares	6,110	6,404	6,177	6,077
Non-controlling interests	231	306	198	277
<b>Total equity</b>	<b>6,341</b>	<b>6,710</b>	<b>6,375</b>	<b>6,354</b>

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## 8. BALANCE SHEET & CAPITAL

IAG's total assets at 30 June 2020 were \$29,694m compared to \$29,053m at 31 December 2019. The net increase of \$641m includes the combination of:

- A \$390m increase in trade and other receivables, incorporating increased reinsurance recoveries on paid claims, including those reflecting full utilisation of the FY20 stop-loss protection;
- A \$183m decrease in assets held for sale, reflecting completion of the sale of the 26% interest in SBI General in 2H20; and
- A \$173m increase in other assets largely represented by increased current tax assets, with tax paid exceeding tax due owing to 2H20 operating losses (excluding the profit on sale of SBI General).

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 30 June 2020 were \$23,340m, compared to \$22,678m at 31 December 2019. The \$662m net increase is largely represented by:

- A \$190m increase in trade and other payables, reflecting timing movements on the settlement of accounts payable, GST payable and outstanding investment trades; and
- A \$292m increase in other liabilities, which includes the increased provision for customer refunds and increased non-controlling interests in unitholders' funds in the cash management trust, as superannuation plan members increased their cash weightings.

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 \$6,177m at 31 December 2019 to \$6,077m at 30 June 2020. This predominantly reflects the net effect of earnings in 2H20 less the 10 cent per share final dividend (\$231m) paid in March 2020.

### OUTSTANDING CLAIMS

#### Net Outstanding Claims Liability

IAG's net outstanding claims liability at 30 June 2020 stood at \$4,515m, compared to \$4,517m at 30 June 2019. The minimal net movement between year-ends included:

- An increase in outstanding claims liability for higher natural peril claims, COVID-19 allowances and strengthening across Australian long tail reserves; offset by
- Increased reinsurance recoveries and settlement of prior period claims.

#### Claims Development

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

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

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Balance sheet movements reflect SBI General sale, increased customer refund provision and various timing differences

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Similar net claims liability to FY19

## 8. BALANCE SHEET & CAPITAL

The table highlights that, as at 30 June 2020, more than 98% of the total estimated liability for the 2011 to 2014 accident years had been paid. The equivalent figure for each of the 2015 to 2018 accident years is at least 91%, and around 88% for the 2019 accident year.

NET ULTIMATE CLAIMS PAYMENTS DEVELOPMENT TABLE	Accident Year Ended 30 June											
	2010 and prior A\$m	2011 A\$m	2012 A\$m	2013 A\$m	2014 A\$m	2015 A\$m	2016 A\$m	2017 A\$m	2018 A\$m	2019 A\$m	2020 A\$m	TOTAL A\$m
<b>Development</b>												
At end of accident year		5,065	5,278	5,217	5,653	6,348	5,010	5,317	4,536	3,968	4,239	
One year later		5,177	5,351	5,142	5,658	6,270	4,963	5,263	4,449	4,031		
Two years later		5,217	5,291	5,061	5,571	6,206	4,904	5,227	4,439			
Three years later		5,248	5,201	4,981	5,430	6,089	4,842	5,234				
Four years later		5,450	5,149	4,901	5,361	6,086	4,848					
Five years later		5,518	5,089	4,882	5,343	6,074						
Six years later		5,531	5,078	4,884	5,315							
Seven years later		5,625	5,092	4,866								
Eight years later		5,626	5,091									
Nine years later		5,608										
<b>Current estimate of net ultimate claims</b>		<b>5,608</b>	<b>5,091</b>	<b>4,866</b>	<b>5,315</b>	<b>6,074</b>	<b>4,848</b>	<b>5,234</b>	<b>4,439</b>	<b>4,031</b>	<b>4,239</b>	
Cumulative payments made to date		5,542	5,031	4,804	5,221	5,935	4,648	4,961	4,054	3,546	2,737	
<b>Net undiscounted outstanding claims payments</b>	<b>178</b>	<b>66</b>	<b>60</b>	<b>62</b>	<b>94</b>	<b>139</b>	<b>200</b>	<b>273</b>	<b>385</b>	<b>485</b>	<b>1,502</b>	<b>3,444</b>
Discount to present value	(2)	(1)	(1)	(1)	(1)	(2)	(2)	(3)	(3)	(5)	(8)	(29)
<b>Net discounted outstanding claims payments</b>	<b>176</b>	<b>65</b>	<b>59</b>	<b>61</b>	<b>93</b>	<b>137</b>	<b>198</b>	<b>270</b>	<b>382</b>	<b>480</b>	<b>1,494</b>	<b>3,415</b>
Claims handling costs												363
Risk margin												737
<b>Net outstanding claims liability</b>												<b>4,515</b>
Gross outstanding claims liability on the balance sheet												10,584
Reinsurance and other recoveries on outstanding claims												(6,069)
<b>Net outstanding claims liability</b>												<b>4,515</b>

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

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

### Risk Margins

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

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

The risk margin applied to the net central estimate of the outstanding claims liability was 20% at 30 June 2020 (FY19: 19%).

### CAPITAL

#### Capital Adequacy

IAG held regulatory capital of \$4.1bn at 30 June 2020. At that date, IAG's CET1 ratio was 1.23 times the PCA, compared to a targeted range of 0.9 to 1.1 times and a regulatory minimum requirement of 0.6 times.

Regulatory capital of  
\$4.1bn

The CET1 ratio is IAG's primary capital measure and continues to meet or exceed targeted levels. The CET1 ratio increased from the 1.15 multiple reported at 31 December 2019, owing to the net effect of:

- Completion of the sale of the 26% interest in SBI General at the end of March 2020, which increased regulatory capital by nearly \$450m;
- Negative earnings in 2H20, excluding the profit on sale of SBI General;

## 8. BALANCE SHEET & CAPITAL

- The interim dividend paid in March 2020;
- A significant reduction in the diversified asset risk charge, following a substantial reduction in equity investment exposure;
- Increased deferred tax assets, reflecting additional amounts from the increased customer refunds provision and the COVID-19 provision, offset by further utilisation of New Zealand tax losses; and
- Reduced excess technical provisions over liabilities, following recognition of potential future liabilities stemming from COVID-19 and related economic effects.

Any COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of IAG's regulatory capital position. The present value of probability-weighted future cash flows that attach to the unearned premium liability approximates \$160m and is not reflected in IAG's balance sheet at 30 June 2020.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H19 A\$m	FY19 A\$m	1H20 A\$m	FY20 A\$m
<b>Common Equity Tier 1 Capital (CET1)</b>				
Ordinary shares	6,617	6,617	6,617	6,617
Reserves	39	47	42	30
Retained earnings	(497)	(211)	(433)	(521)
Technical provisions in excess of liabilities	505	500	425	342
Minority interests	231	306	198	277
Less: Deductions	(4,153)	(4,177)	(4,135)	(4,178)
<b>Total Common Equity Tier 1 Capital</b>	<b>2,742</b>	<b>3,082</b>	<b>2,714</b>	<b>2,567</b>
<b>Additional Tier 1 Capital</b>				
Hybrid equities	624	569	404	404
<b>Total Tier 1 Capital</b>	<b>3,366</b>	<b>3,651</b>	<b>3,118</b>	<b>2,971</b>
<b>Tier 2 Capital</b>				
Subordinated term notes	1,293	1,330	1,136	1,127
<b>Total Tier 2 Capital</b>	<b>1,293</b>	<b>1,330</b>	<b>1,136</b>	<b>1,127</b>
<b>Total Regulatory Capital</b>	<b>4,659</b>	<b>4,981</b>	<b>4,254</b>	<b>4,098</b>
<b>Prescribed Capital Amount (PCA)</b>				
Insurance risk charge	1,002	987	968	1,001
Insurance concentration risk charge	169	169	169	169
Diversified asset risk charge	1,358	1,407	1,431	1,049
Aggregation benefit	(566)	(572)	(570)	(498)
Operational risk charge	365	363	360	361
<b>Total Prescribed Capital Amount</b>	<b>2,328</b>	<b>2,354</b>	<b>2,358</b>	<b>2,082</b>
<b>PCA multiple</b>	<b>2.00</b>	<b>2.12</b>	<b>1.80</b>	<b>1.97</b>
<b>CET1 multiple</b>	<b>1.18</b>	<b>1.31</b>	<b>1.15</b>	<b>1.23</b>

Unused tax losses, essentially stemming from the Canterbury earthquakes in New Zealand in FY11, stood at approximately \$259m at 30 June 2020, and are disallowed for regulatory capital calculation purposes. During FY20, related tax losses on the balance sheet reduced by over \$60m.

## 8. BALANCE SHEET & CAPITAL

During FY20 IAG 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 in FY20, reflecting reduced reliance on inter-company loans

### Interest Bearing Liabilities

IAG's interest bearing liabilities stood at \$1,526m at 30 June 2020, compared to \$1,532m at 31 December 2019. Instrument composition is identical at both balance dates. Redemption of the \$550m Reset Exchangeable Securities (RES) occurred towards the end of 1H20.

	1H19 A\$m	FY19 A\$m	1H20 A\$m	FY20 A\$m
<b>INTEREST BEARING LIABILITIES</b>				
Subordinated debt	1,033	1,135	1,136	1,127
Reset Exchangeable Securities	550	550	-	-
Capital Notes	404	404	404	404
<b>Subtotal interest bearing liabilities</b>	<b>1,987</b>	<b>2,089</b>	<b>1,540</b>	<b>1,531</b>
Capitalised transaction costs/other	(11)	(9)	(8)	(5)
<b>Total interest bearing liabilities</b>	<b>1,976</b>	<b>2,080</b>	<b>1,532</b>	<b>1,526</b>

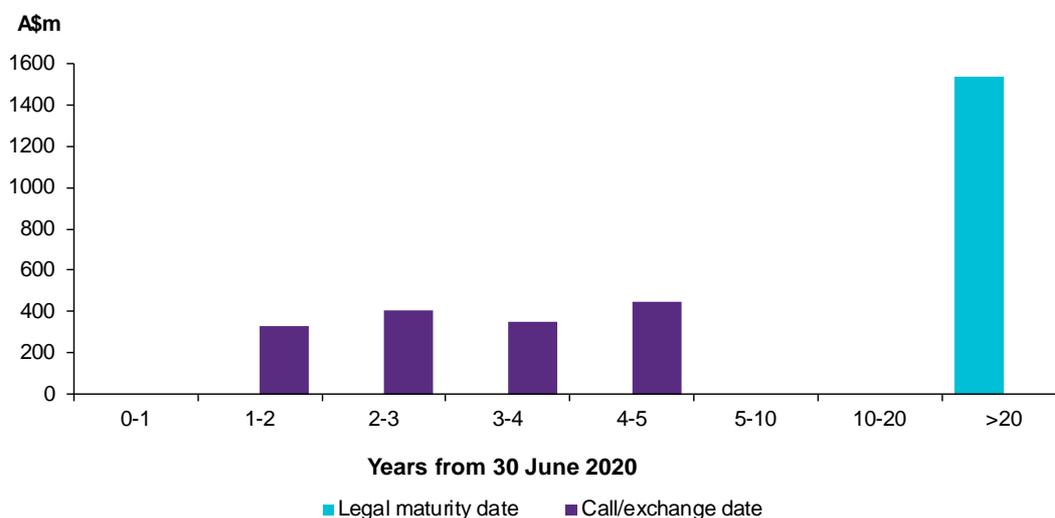
GROUP DEBT & HYBRID CAPITAL	Principal amount		Yield %	Rate	First Call or Exchange date	S&P rating
	\$m	A\$m				
Subordinated fixed rate notes	NZ\$350	327	5.15%	Fixed	Jun-22	'BBB'
Subordinated term notes (issued Mar-18) <sup>1</sup>	A\$350	350	2.20%	Variable	Jun-24	'BBB'
Subordinated term notes (issued Mar-19) <sup>2</sup>	A\$450	450	2.45%	Variable	Jun-25	'BBB'
<b>Total Debt</b>		<b>1,127</b>				
Capital Notes (IAGPD) <sup>3</sup>	A\$404	404	4.80%	Variable	Jun-23	'N/R'

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

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

<sup>3</sup> The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield.

### DEBT MATURITY PROFILE



## 8. BALANCE SHEET & CAPITAL

### Capital Mix

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

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

At 30 June 2020, debt and hybrids represented 32.2% 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.

Capital mix within targeted ranges

CAPITAL MIX	1H19 A\$m	FY19 A\$m	1H20 A\$m	FY20 A\$m
Shareholder equity	6,341	6,710	6,375	6,354
Intangibles and goodwill	(3,173)	(3,098)	(3,110)	(3,134)
<b>Tangible shareholder equity</b>	<b>3,168</b>	<b>3,612</b>	<b>3,265</b>	<b>3,220</b>
Interest bearing liabilities	1,976	2,080	1,532	1,526
<b>Total tangible capitalisation</b>	<b>5,144</b>	<b>5,692</b>	<b>4,797</b>	<b>4,746</b>
<b>Debt to total tangible capitalisation</b>	<b>38.4%</b>	<b>36.5%</b>	<b>31.9%</b>	<b>32.2%</b>

Subject to market conditions, IAG may seek to issue a new Tier 2 subordinated instrument in FY21 to provide additional liquidity.

### Capital Management

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

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

The present regulatory stance in both Australia and New Zealand is encouraging a more conservative approach to capital.

### 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.

Current economic uncertainty dictates more conservative approach to capital

## 9. 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 meets community and customer expectations.

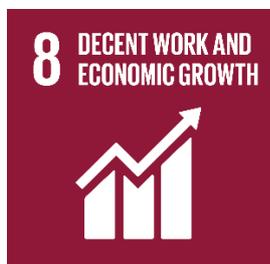
In the face of multiple challenges throughout FY20, IAG continued to deliver on its purpose through its Safer Communities Plan, prioritising three key areas where it can make a meaningful difference to society and create commercial value:

- **Being a responsible and ethical business** – setting the standard for meeting the expectations of customers and the community;
- **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; and
- **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

IAG continues to support 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:

Commitment to UN Sustainable Development Goals



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.

Material issues identified

The issues identified as material to IAG's business are:



Post disaster relief and emergency response



Accessibility and affordability of insurance



Community connection and resilience



Climate change and its impacts

This year four issues were identified as most material to IAG. This is less than previous years and can be attributed to the very high levels of importance placed on these four most material issues.

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## 9. SAFER COMMUNITIES

### DEMONSTRATING LEADERSHIP AS A RESPONSIBLE AND ETHICAL BUSINESS

Being a responsible and ethical business is not just about understanding and managing environmental, social and governance (ESG) risk; it ensures IAG lays solid foundations to respond to challenges, identify opportunities and continues to grow and thrive.

IAG is a purpose-led organisation, with 'we make your world a safer place' at the forefront of all decision-making. IAG's purpose also provides guidance on the role it should play in tackling its material issues.

In FY20, the Australian bushfires and COVID-19 presented considerable challenges that have impacted, and continue to impact, IAG's operations and the everyday lives of its customers, people and communities. IAG has remained focused on delivering its purpose, enabling it to continue to support people and communities to be more resilient and increasingly feel they are ready for anything.

#### Responsible and ethical sourcing

Collaboration, including working with suppliers, is key to IAG delivering its purpose.

Throughout FY20 IAG developed its approach to, and governance of, responsible sourcing, including the introduction of a new Group Procurement Policy. IAG also launched its Supplier Code of Conduct (the code) and began assessing suppliers against its requirements. The code includes IAG's minimum expectations of suppliers in relation to ESG issues and lays out IAG's own commitments in this area.

The code is now included in IAG's tender documents, Purchase Order Terms & Conditions and new supplier agreements. To support its implementation, IAG has run internal information sessions and an active communications program to share the code with all suppliers. Communication and assessment against the code will continue throughout FY21.

In addition, IAG has launched its modern slavery program and is developing its first Modern Slavery Statement which will be published during FY21.

#### Addressing access and affordability through financial inclusion

In March 2020, IAG launched its Financial Inclusion Action Plan (FIAP), designed to make insurance in Australia more accessible. Access and affordability of insurance remains a key material issue for IAG, particularly in these challenging economic times.

The FIAP focuses on how IAG can better identify and support people who may experience financial exclusion due to culture, language, gender, disability or other life circumstances. It also focuses on ensuring IAG's customers are treated equitably and fairly through IAG's Customer Equity Framework.

Through its FIAP, IAG is working to simplify product disclosure statements, develop accessibility guidelines for technology, continue its support of Aboriginal and Torres Strait Islander businesses and ensure IAG is providing fair, affordable and accessible products and services to its customers.

#### Sustainable finance contributing to the COVID-19 recovery

In 2H20, IAG continued its involvement in 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. The final ASFI roadmap is expected to be launched in 1H21.

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IAG is a purpose-led organisation

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FY20 launch of Supplier Code of Conduct

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Financial Inclusion Action Plan launched

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IAG has role in sustainable finance initiatives in Australia and New Zealand

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## 9. SAFER COMMUNITIES

In May 2020, in light of COVID-19, ASFI released a statement on the importance of rebuilding the Australian economy and growing jobs to support greater resilience, while preparing the Australian population for any future shocks that may occur, including those stemming from climate change.

In New Zealand, IAG is also involved in The New Zealand Sustainable Finance Forum (the Forum), which was established to deliver a Sustainable Finance Roadmap to help New Zealand shift to a financial system that supports sustainable social, environmental and economic wellbeing.

The Forum delivered its Interim Report in 1H20 and is expected to present its final recommendations and roadmap for action in 1H21. In May 2020, the Forum wrote to the New Zealand Finance Minister outlining the importance of integrating sustainable finance with COVID-19 recovery and renewal finance, as well as a set of core beliefs and characteristics that should apply to the country's recovery approach, based on the framework in its Interim Report.

### 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.

#### Addressing climate-related risks and opportunities

To deliver on its purpose, IAG works to mitigate risks the communities, businesses and individuals it insures are exposed to. IAG acknowledges its unique ability to help communities prepare for and manage climate impacts, while realising the business opportunities of a safer world.

**Governance:** An updated overview of IAG's governance approach to managing the risks and opportunities climate change presents to its business are included in the FY20 climate-related disclosure published in the Safer Communities section of [www.iag.com.au](http://www.iag.com.au). This includes six-monthly progress updates against IAG's Climate Action Plan.

**Strategy:** IAG recognises climate change is a key consideration to ensure sustainability. In setting its strategy, IAG has identified climate change as a key trend that directly influences the stability and growth of its businesses.

IAG has developed a strong understanding of climate change trends via research on natural perils and climate modelling as well as through collaboration with other organisations and initiatives to reduce climate-related risks and strengthen climate resilience. This informs IAG's understanding of how the increasing risk of extreme weather events may impact the business in the short, medium and long-term.

**Risk management:** IAG regularly profiles and assesses risks to ensure the successful execution of its corporate strategy. Risk management is part of IAG's corporate plan, which is embedded through its insurance portfolios and customer segments. This provides IAG with parameters on how to limit the impact of risks, such as climate change, in delivering its organisational strategy and purpose.

IAG's Climate Risks & Opportunities Program continued to work to improve understanding and embed consideration of climate-related impacts into its business model. This includes using research on Physical and Transition impacts to undertake a preliminary assessment of climate risks and opportunities to key areas of IAG's business value chain, and develop activities to manage these risks.

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

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IAG has a strong understanding of climate change trends through its own research

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## 9. SAFER COMMUNITIES

IAG's current assessment is that Physical impacts present the most material short, medium and long-term risk to IAG's business, whereas Transition impacts are less material and provide both medium-term risks and opportunities to its product, customer and investment portfolios. Preliminary analysis indicates the following five areas of IAG's business value chain will experience the most significant impacts from climate change:

- Reinsurance and capital;
- Product and service pricing;
- Customer segments and affordability;
- Claims and insurance supply chain; and
- Investments.

**Metrics and targets:** IAG has been carbon neutral since 2012, and has set science-based absolute emission targets for scope 1 and 2 emissions to meet its Paris Agreement commitments to keep climate change below 2°C. Using FY18 as a baseline, IAG's science-based absolute emission targets for scopes 1 and 2 are:

- A 20% reduction by FY20, which it has met;
- 43% by FY25;
- 71% by FY30; and
- 95% by FY50.

IAG measures (and has significantly reduced) its exposure to high risk companies in its investments and underwriting, including the carbon exposure of its equity investments.

### Climate change and IAG's products

IAG's research into improving understanding of resilient and vulnerable property components to natural perils is ongoing and provides insights for more accurate pricing and risk reduction opportunities. For example, IAG's Natural Perils team has improved its capability to assess the affordability and viability of its insurance products in areas most likely to be affected by severe weather events by developing a sophisticated technical peril pricing engine. Output from this pricing engine can provide price-based incentives and/or a business case for physical risk reduction activities such as a climate-resilient rebuild claims model.

### Responding to the Australian bushfires

The scale and intensity of the Australian bushfire season in FY20 was unprecedented and the impact on communities across the country has been devastating. IAG's purpose was at the forefront of its response as it drew on existing partnerships with the Australian Red Cross, NSW State Emergency Service (SES) and GIVIT to provide community support. This support also included the donation of the NRMA Insurance helicopter to the NSW Rural Fire Service to spray fire retardant, which directly resulted in a number of homes being saved.

IAG's partnership with GIVIT focuses on supporting communities to recover by connecting people who have items to donate to those who are in need. In FY20 the partnership was expanded to cover NSW and Victoria, enabling additional support to more bushfire-impacted communities.

During the bushfires paid volunteer leave for IAG employees who were registered emergency services volunteers was extended from five to 20 days, and from one to five days for those volunteering with disaster relief and recovery efforts.

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FY20 20% emission reduction target has been met

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Sophisticated technical peril pricing engine developed

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NRMA Insurance helicopter deployed in Australian bushfires

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## 9. SAFER COMMUNITIES

IAG recognises that recovery is a long process, and that it can provide opportunities to build preparedness to help communities better respond to future disasters. IAG has continued to partner with the Australian Red Cross, with the co-created 'Get Prepared' app registering over 30,000 downloads since its launch in 2017.

### 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 help them thrive.

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IAG partners with communities to help them thrive

#### Supporting safer homes in bushfire recovery and during COVID-19

The impacts of the bushfires across Australia and COVID-19 across both Australia and New Zealand have highlighted the importance of community connection and resilience, including addressing family and domestic violence and mental health.

In Australia, NRMA Insurance announced a \$4m community investment to address family and domestic violence and mental health, particularly for communities already devastated by bushfires and natural perils across the summer of 2019/20. Through this, NRMA Insurance is supporting the Full Stop Foundation in its work to address sexual, family and domestic violence in Australian communities. This includes increased phone counselling services and helping up to 50 local organisations in their provision of assistance to clients as they move to safety and recovery.

In partnership with RACV in Victoria, NRMA Insurance is supporting Lifeline's critical tele-health suicide prevention services for vulnerable communities including those affected by the summer bushfires and COVID-19.

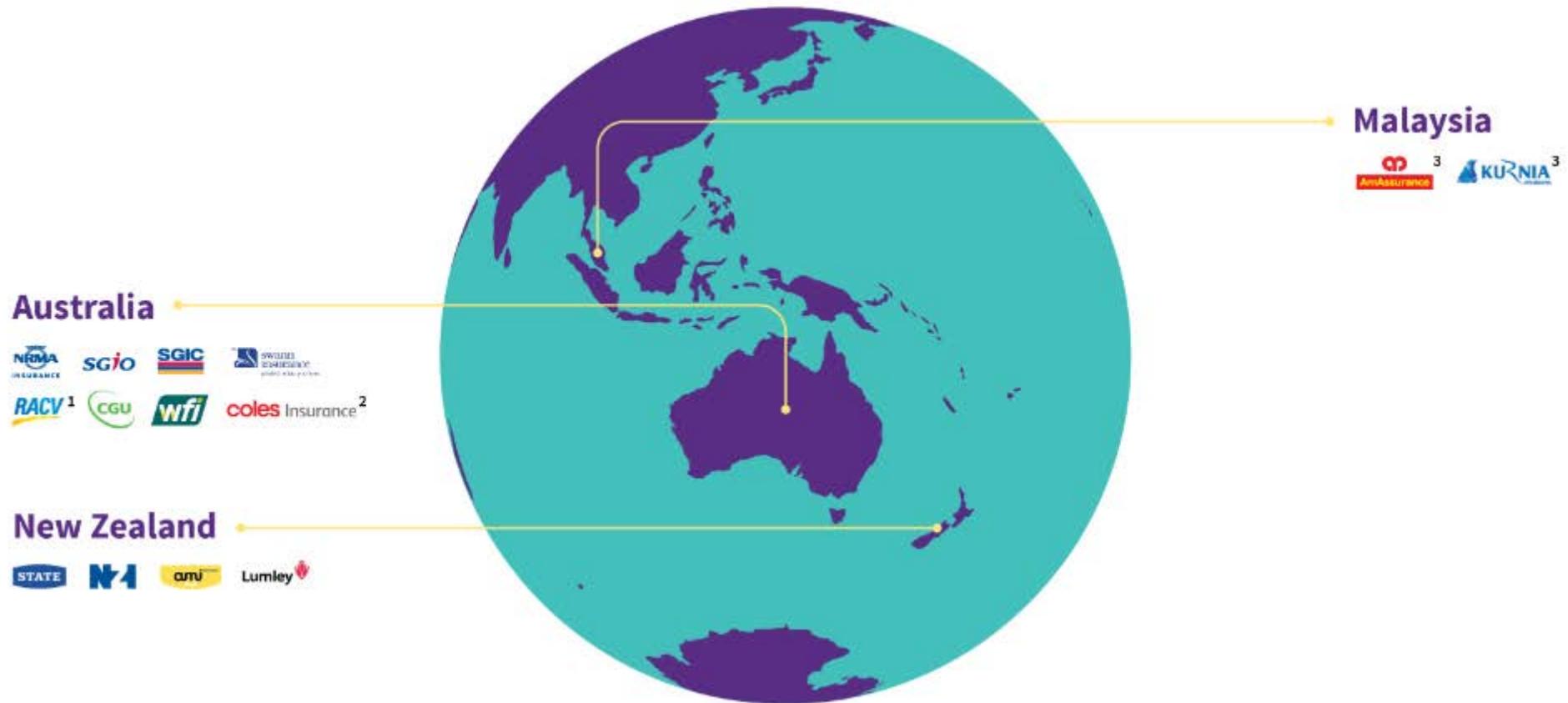
#### Building resilience in our First Nations communities

IAG's Indigenous Engagement Strategy and Elevate Reconciliation Action Plan have a strategic objective to reduce the incarceration and re-offending rates for Indigenous Australians. Through IAG's relationship with Just Reinvest NSW, in FY20 IAG supported a number of community consultations to inform a place-based approach in Mount Druitt which focuses on understanding the data around incarceration and crime in the area.

Through this partnership, IAG is also supporting a Learner Driver Mentor Program for the area which aims to reduce the incarceration rates for driving-related offences among Aboriginal and Torres Strait Islander Australians in Mount Druitt. The program aims to increase the inclusion of Indigenous Australians in the licensing system and improve road safety outcomes, while fostering the increased economic inclusion that flows from having a licence.

# APPENDIX A BRAND PORTFOLIO

## PORTFOLIO OF INSURANCE BRANDS AND MARKETS



100%-owned unless indicated (all ownership percentages are as at 30 June 2020).

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.

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# 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.

### 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

## NEW ZEALAND

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

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

### Short tail insurance

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

### Long tail insurance

- Compulsory Third Party (motor injury liability)

### Short tail insurance

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

### Long tail insurance

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

### Short tail insurance

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

### Long tail insurance

- Personal liability
- Commercial liability

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# APPENDIX C KEY RELATIONSHIPS

## GLOBAL

### BERKSHIRE HATHAWAY

Berkshire Hathaway Inc. is one of the largest listed companies in the world, by market capitalisation. It owns a diversified portfolio of businesses and investments, 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.

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## APPENDIX C KEY RELATIONSHIPS

### ROYAL AUTOMOBILE CLUB OF VICTORIA (RACV)

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



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

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

## ASIA

### AMBANK GROUP

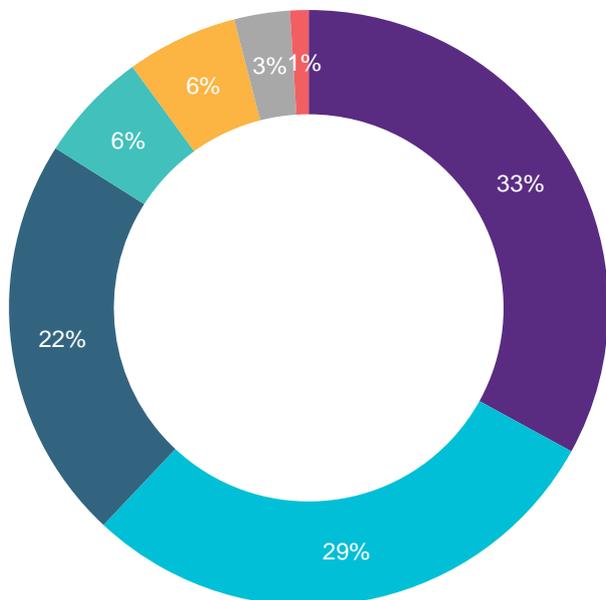
Established in August 1975, AmBank Group is the sixth largest banking group in Malaysia. The Group comprises AMMB Holdings Berhad, a public listed company on the Main Board of Bursa Malaysia. The Group offers a comprehensive range of both conventional and Islamic financial solutions through its retail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

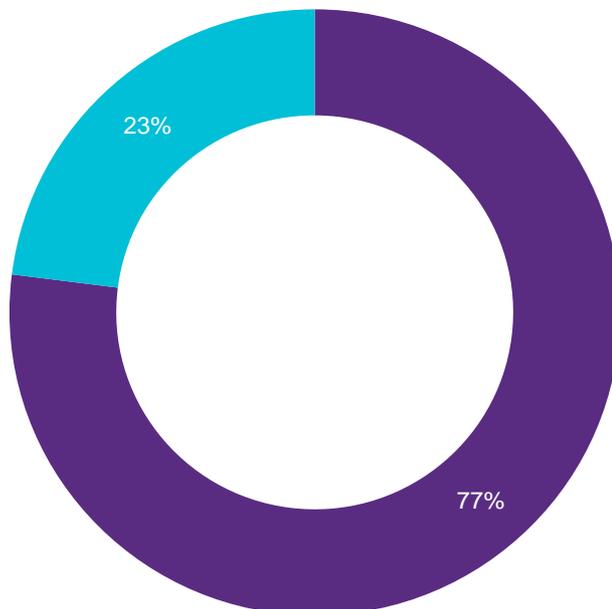
# APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION

GWP BY PRODUCT — FY20



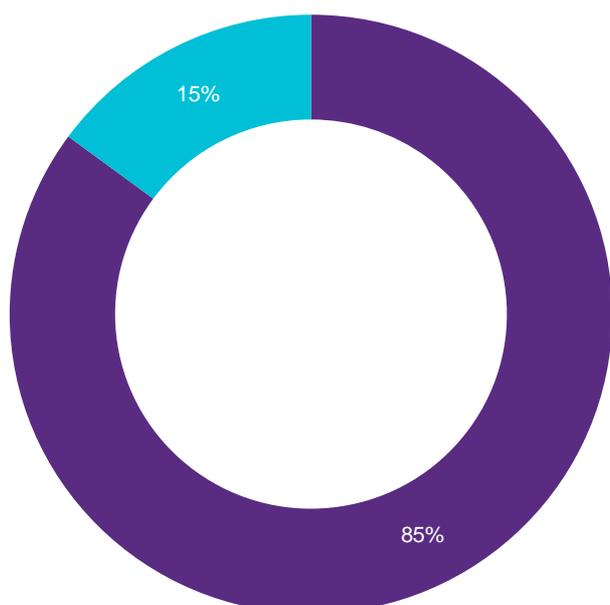
- Motor
- Home
- Short tail commercial
- CTP/motor liability
- Liability
- Workers' compensation
- Other short tail

GWP BY BUSINESS — FY20



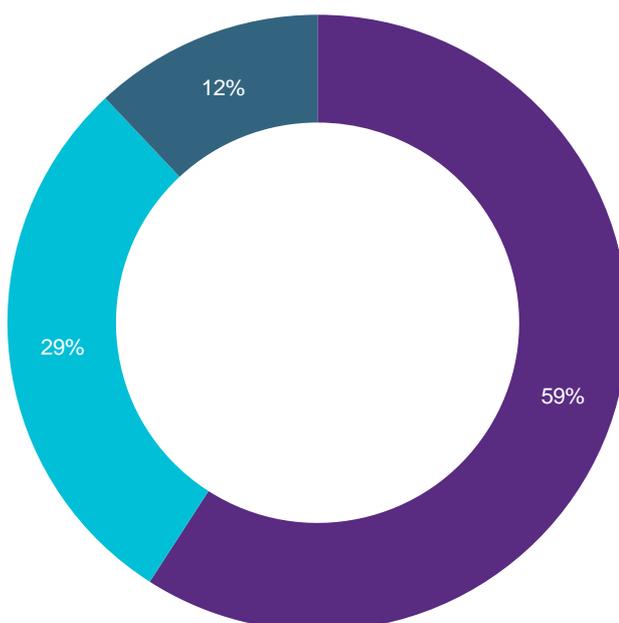
- Australia
- New Zealand

GWP BY TAIL — FY20



- Short Tail
- Long Tail

GWP BY CHANNEL — FY20



- Direct
- Intermediated
- Affinity

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# APPENDIX E KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 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>.

## **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. A perils update was also provided which indicated an estimated net natural perils claim cost of approximately \$400m for 1H20, compared to a corresponding allowance of \$320m.

## **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.

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

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

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 indicated 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 some customers.

IAG also advised the hailstorms which impacted parts of Melbourne, Canberra and Sydney over 19-20 January 2020 would be treated as one event for reinsurance. 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.

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## APPENDIX E KEY ASX RELEASES

### 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.

### 12-FEB-20 IAG ANNOUNCES 1H20 RESULTS

IAG announced its 1H20 results which saw the underlying business produce a strong performance over the half. The Australian business generated solid underlying profitability while meeting the challenge of a series of devastating bushfires, while New Zealand continued to perform well, delivering strong margins and solid GWP growth. Overall GWP growth was 1.4%, and an improved underlying insurance margin of 16.9% (1H19: 16.2%) was similar to 2H19 as further benefits from the optimisation program were realised. Some offset was incurred from a previously-flagged increase in regulatory and compliance costs as well as lower interest rates impacting investment income. A lower reported margin of 13.5% (1H19: 13.7%) included net natural peril claim costs nearly \$100m in excess of allowance and lower than anticipated prior period reserve releases. Net profit after tax of \$283m was considerably lower than 1H19, owing to the absence of the prior period's profit on sale of IAG's Thailand operations of over \$200m and inclusion of a post-tax provision of \$82m to address a customer pricing issue. A lower interim dividend of 10 cents per share represented nearly 61% of cash earnings for the half. Following the heavy rain event in south-east Australia in early February, FY20 reported margin guidance was lowered by a further 200bps to 12.5-14.5%, reflecting an increased FY20 net natural peril claim cost assumption of \$850m (up from \$715m).

### 30-MAR-20 IAG PROVIDES BUSINESS UPDATE

IAG provided a business update, which covered:

- Its response to the coronavirus (COVID-19) pandemic. IAG confirmed over 90% of its people in Australia were already working from home and that a range of measures had been introduced across Australia and New Zealand to support its customers and suppliers;
- The completion of the sale of its 26% interest in SBI General Insurance Company in India, which was first announced on 17 October 2019. As a result, IAG will book a net profit on sale of approximately \$310m in 2H20 and its regulatory capital position increases by nearly \$450m;
- Confirmation of the company's strong capital position, with its CET1 ratio estimated to be at the top end of its targeted range of 0.9 to 1.1. This is after adverse peril-affected earnings in the months of January and February, negative investment market impacts up until the end of March, payment of the interim dividend and completion of the sale of IAG's interest in SBI General; and
- Unchanged guidance for FY20, of 'low single digit' GWP growth and a reported margin range of 12.5-14.5%. Reaffirmed margin guidance specifically excluded an unrealised loss on technical reserves investment income from widening credit spreads, of approximately \$100m pre-tax since 31 December 2019, predominantly in the month of March.

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## APPENDIX E KEY ASX RELEASES

### 30-MAR-20 UPDATED 2020 CALENDAR OF KEY DATES

IAG provided an updated calendar for the balance of 2020. This followed the postponement of its Investor Day, which was originally scheduled for 14 May 2020, owing to the uncertainties and logistical challenges created by the COVID-19 pandemic.

### 8-APR-20 CEO PETER HARMER TO RETIRE BY END OF 2020 AND NICK HAWKINS APPOINTED DEPUTY CEO

IAG Chairman Elizabeth Bryan announced that IAG Managing Director and Chief Executive Officer Peter Harmer had advised the Board of his intention to retire by the end of 2020. A flexible nine-month period of transition has been agreed with Mr Harmer to ensure a smooth changeover. A search process is underway to ensure a strong field of internal and external candidates is available. The Board also appointed IAG Chief Financial Officer Nick Hawkins as Deputy CEO with accountability for the management and performance of IAG's day-to-day operations during the transition period, with immediate effect. Michelle McPherson, CFO Australia, was appointed acting Group CFO.

### 4-MAY-20 IAG PROVIDES MARKET UPDATE

IAG provided a market update to:

- Indicate FY20 dividend prospects. Based on year-to-date investment income outcomes and its forecast FY20 insurance profit, IAG advised of limited scope to pay a final dividend in September 2020, after application of the upper end of its 60-80% of full year cash earnings payout policy and allowance for the 10 cent interim dividend paid in March 2020;
- Quantify year-to-date investment market impacts. At the end of April 2020, IAG's investment income on shareholders' funds amounted to a financial year-to-date loss of approximately \$280m pre-tax, reflecting the severe corrections in equity and credit markets witnessed in 2H20. IAG confirmed its weighting towards growth assets (equities and alternative asset classes) in its shareholders' funds portfolio had materially reduced to under 30% at 30 April 2020, reflecting the impact of falling equity markets, mark-to-market effects in alternative asset classes, some active reallocation of funds to fixed interest and cash, and the placement of the proceeds from the sale of the interest in SBI General into conservative fixed interest and cash assets; and
- Comment on FY20 guidance. While IAG's underlying business performance has remained strong for the nine months ended 31 March 2020, the concluding months of FY20 are subject to ongoing uncertainty from the impact of COVID-19 related challenges, surrounding economic conditions and the direction of investment markets. Subject to the impact of these uncertainties, IAG retained its existing FY20 market guidance, of 'low single digit' GWP growth and a reported insurance margin of 12.5-14.5%. The reported margin guidance excludes an unrealised loss from a widening of credit spreads since 31 December 2019, which at the end of March approximated \$100m pre-tax and has moderated in April.

### 24-JUL-20 IAG OUTLINES FY20 RESULTS

IAG provided an update on its results for the year ended 30 June 2020, within which it expects to report:

- GWP growth of around 1%, consistent with the 'low single digit' guidance maintained throughout FY20; and
- An insurance margin of approximately 10%, with the shortfall against prior guidance of 12.5-14.5% largely driven by adverse natural perils, prior period reserving and credit spread factors.

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## APPENDIX F GLOSSARY

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

<b>AFFINITY</b>	A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.
<b>APRA</b>	Australian Prudential Regulation Authority.
<b>ASIC</b>	Australian Securities & Investments Commission.
<b>CAPITAL NOTES</b>	Capital Notes were issued by IAG in December 2016 and are quoted as IAGPD on ASX.
<b>CASH EARNINGS</b>	IAG defines cash earnings as net profit after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of IAG's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.
<b>CASH ROE</b>	IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles.
<b>CLAIMS HANDLING EXPENSES</b>	Those administration costs incurred in the investigation, assessment and settlement of a claim.
<b>COMBINED RATIO</b>	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>	The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.
<b>CREDIT SPREAD</b>	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
<b>CTP</b>	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
<b>DEFERRED ACQUISITION COSTS (DAC)</b>	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
<b>DISCOUNT RATE</b>	In accordance with Australian Accounting Standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.

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<b>DRP</b>	Dividend Reinvestment Plan, where shareholders receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
<b>EPS</b>	Earnings per share.
<b>EXCHANGE COMMISSION</b>	A fee, comprising fixed and variable components, paid under a quota share agreement by a reinsurance company to a ceding insurer to cover administrative costs, acquisition expenses and access to the underwriting profits of the ceded business.
<b>EXPENSE RATIO</b>	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
<b>FIRE SERVICE LEVIES</b>	Fire service levies are taxes on insurers to assist government funding for fire and emergency services. In Australia, where they remain (the Emergency Services Levy (ESL) in NSW and the Fire Services Levy (FSL) in Tasmania (commercial property lines only)), they are an expense of the insurer, rather than government charges directly upon those insured. In these instances, the insurer is responsible for paying these levies, usually in arrears, and they are included in GWP and expenses for reporting purposes.
<b>FRANKING CREDITS</b>	Also known as an imputation credit, a franking credit is a type of tax credit that allows Australian companies to pass on tax paid to shareholders. The benefit to a shareholder is that franking credits can be used to reduce income tax paid on dividends received. IAG also receives franking credits from its Australian equity investment portfolio.
<b>GROSS EARNED PREMIUM</b>	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
<b>GROSS WRITTEN PREMIUM (GWP)</b>	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
<b>IFRS</b>	International Financial Reporting Standards.
<b>IMMUNISED RATIO</b>	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
<b>INSURANCE MARGIN</b>	The ratio of insurance profit to net earned premium.
<b>INSURANCE PROFIT</b>	Underwriting result plus investment income on assets backing technical reserves.

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

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## APPENDIX F GLOSSARY

<b>RESERVE MOVEMENTS</b>	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.
<b>RISK FREE RATE</b>	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.
<b>RISKS IN FORCE</b>	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
<b>ROE</b>	Return on equity, being net profit after tax divided by average equity attributable to owners of the company.
<b>SHAREHOLDERS' FUNDS</b>	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
<b>SHORT TAIL</b>	Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
<b>SME</b>	Small-to-medium-sized enterprise.
<b>TECHNICAL RESERVES</b>	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.
<b>TEPLA</b>	The Excess Profit or Loss Adjustment (TEPLA) is the adjustment required to ensure profit recognition under the CTP scheme in NSW is in line with the legislated capped level. In accordance with accounting requirements, TEPLA is treated as part of levies (alongside fire service levies), within underwriting expenses.
<b>TREASURY SHARES</b>	Ordinary IAG shares held by the company. These are primarily for the purposes of meeting share-based remuneration plan obligations.
<b>TSR</b>	Total shareholder return.

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## 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.

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# DIRECTORY

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## SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**): 2,311,046,583 on issue at 30 June 2020
- Capital Notes (**IAGPD**): 4,041,265 on issue at 30 June 2020

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ\$350m outstanding at 30 June 2020

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## KEY DATES

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*
Interim dividend – ordinary shares	
• Ex-dividend date	16 February 2021*
• Record date	17 February 2021*
• DRP record date	18 February 2021*
• Payment date	30 March 2021*
Payment date for IAGPD and IAGFB quarterly distributions	15 March 2021
Payment date for IAGPD and IAGFB quarterly distributions	15 June 2021
Announcement of full year results to 30 June 2021	11 August 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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