Like-for-like gross written premium grew almost 4% over the first half of last year, as commercial pricing continued to improve in Australia and New Zealand and rate increases in short tail personal policies countered claim inflation pressures.

IAG achieved an improved underlying performance in the first half of the 2018 financial year, consistent with guidance provided at the beginning of the year. Key financial results were:

$5,834m
Gross written premium
Up 0.6%

IAG defined its underlying insurance margin as the reported insurance margin adjusted for:

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

Cash earnings per share
26.66 cents
Up 33.4%

Cash earnings per share of 26.66 cents increased by 33.4% over the first half of 2017. Reported return on equity was 16.8%, while cash return on equity was 19.1%. This compares to our through-the-cycle target of at least 1.5 times the weighted average cost of capital, which equates to a return on equity of approximately 15%.
Our $551 million net profit after tax was over 23% higher than the first half of 2017. The increase reflected a 30% increase in insurance profit to $743 million as well as the net effect of a higher contribution from investment income on shareholders’ funds, incorporating strong equity market returns; a higher tax rate of approximately 25%, owing to the absence of the favourable tax effect on 2011-related earthquake reinsurance recoveries by an offshore captive vehicle which reduced the first half 2017 tax rate to 17%; and a $50 million writedown included in the amortisation and impairment expense, after a review of the recoverable amount of our Asian assets on the back of updated assumptions and forecasts.

Our underlying insurance margin improved to 12.6%, compared to the recent low-point of 11.2% in the second half of the 2017 financial year. The improvement reflected past and ongoing rate increases; a return to more normal large loss experience in Australian commercial property; and maintenance of improved New South Wales CTP profitability after initial reform measures.

The higher reported insurance margin of 17.3% was driven by a favourable perils outcome, compared to a negative experience in the first half of 2017; a higher favourable credit spread impact from the narrowing of spreads; and prior period reserve releases which, at 2.8% of net earned premium, were higher than we originally expected.

The Board has determined to pay an interim fully franked dividend of 14 cents per ordinary share on 29 March 2018. This represents a cash payout ratio of 52.5% and an increase of 7.7% on the 13 cents per share 2017 interim dividend.
THE NUMBERS CONTINUED.

BUSINESSES PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>AUSTRALIA</th>
<th>NEW ZEALAND</th>
<th>ASIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Written Premium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1H18</td>
<td>$4,453m</td>
<td>$1,190m</td>
<td>$185m</td>
</tr>
<tr>
<td>1H17</td>
<td>$4,483m</td>
<td>$1,128m</td>
<td>$182m</td>
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<tr>
<td>Insurance Profit</td>
<td></td>
<td></td>
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<tr>
<td>1H18</td>
<td>$625m</td>
<td>$119m</td>
<td>$15m</td>
</tr>
<tr>
<td>1H17</td>
<td>$542m</td>
<td>$36m</td>
<td>$2m</td>
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Australia produced like-for-like premium growth of nearly 3%, as short tail personal line rates met claim inflation issues and average commercial rates continued to improve. Slightly lower reported premium was influenced by discontinued

New Zealand continued to perform strongly. The business achieved local currency premium growth of over 9%, reduced to 5.5% on foreign exchange translation. The result reflected strong rises in commercial rates, supplemented by

Asia produced an improved profit contribution of $15 million, owing to better results from Thailand, Malaysia and India. Proportional gross written premium grew by over 5%, driven by the strong growth that continues to be a feature of India,
business, Emergency Services Levy collection changes and New South Wales CTP reform effects. Australia’s reported margin rose to 18.8%, assisted by more favourable peril, reserve release and credit spread outcomes than in the first half of 2017. The underlying margin was slightly lower, at 11.4%, but an improvement over the second half of 2017.

The Australia Division is continuing to focus on its customer value proposition, with initiatives in place to capitalise on changes in external influences and ensure it is well-placed to compete in the current environment. In the longer term, top line growth is expected to be driven by innovative products, employment of increasingly sophisticated data and risk analytics, and greater personalisation of products and services to connect customers with their insured assets and provide greater online engagement.

ongoing personal lines momentum, led by motor. Underlying profitability remains strong, and the reported margin of 14.2% benefited from the absence of the earthquake event which affected the first half 2017 result.

IAG’s strategy in New Zealand remains one of:
• Providing world-leading customer solutions that safeguard assets and lifestyles, including further development of its digital proposition and leveraging off IAG’s innovation incubator to further enhance the customer experience; and
• Maintaining its market-leading position by delivering strong sustainable underlying profitability through continued focus on pricing and underwriting disciplines, and expense management.

with some offset from softer conditions in Malaysia following liberalisation measures in that market.

Asia’s primary focus is to continue with the work to restore underlying margins in the established markets of Thailand and Malaysia to historical levels. Premium growth on a proportional basis is expected to register good growth, led by the continuing strong momentum in India.

We have decided to conduct a strategic review of the options available for our Asian businesses. This review is expected to be concluded by the end of calendar 2018.

For more detailed information about our first half 2018 results, visit the Results & Reports area of our website at www.iag.com.au for the financial statements, investor report and management’s results presentation.
This is an encouraging result for IAG. It reflects solid like-for-like GWP growth of nearly 4%, which was primarily achieved through rate increases in our commercial and consumer insurance businesses, along with some volume growth in motor insurance.

At a reported level, our comprehensive reinsurance protection saw net natural peril claim costs below our allowance while a higher favourable credit spread impact and larger than anticipated reserve releases also helped boost our reported margin. Operationally, our optimisation program continues to track to plan, with neutral net earnings contribution anticipated in the 2018 financial year ahead of meaningful net benefits in the 2019 financial year and beyond.

This half year, we started to see a favourable impact from a number of initiatives we have put in place. These include programs of work around combating claims inflation through our car hire initiatives and customer choice campaign; accelerating our partnering with global experts to simplify processes and reduce complexity; and the bedding down of the Australia Division we created in July last year.

We are in a strong capital position, bolstered by the initial effect of the combined 12.5% quota share agreements announced in December 2017 which will drive lower earnings volatility and reduced catastrophe reinsurance and regulatory capital needs.

“This half year, we started to see a favourable impact from a number of initiatives we have put in place.”
ASIA STRATEGIC REVIEW
As part of our overall Asia strategy, IAG has expressed a strong interest in growth via market consolidation and increased ownership. Our current assessment is that these opportunities are limited; as a result, we have decided to conduct a strategic review of the options available for our Asian businesses. This review is expected to be concluded by the end of calendar 2018.

OUTLOOK
We expect to report further improvement in our underlying performance in the second half of the year, and we are on track to achieve our ‘low single digit’ premium growth guidance for the full 2018 financial year. We have increased our reported margin guidance to 15.5-17.5% to reflect a higher prior period reserve release assumption of around 3% of net earned premium and the favourable credit spread effect recorded in this first half of the year.
STRATEGIC UPDATE.

Our strategy is to optimise our core insurance business while creating future growth options.

We continue to focus on our three strategic priorities of customer, simplification and agility. We will achieve these priorities by delivering world-leading customer experiences, creating a simplified operating model and building a more agile organisation distinguished by innovation, speed and sharp execution.
<table>
<thead>
<tr>
<th>FIRST HALF ACTIVITIES</th>
<th>SECOND HALF PRIORITIES</th>
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<tbody>
<tr>
<td>• Deployed brand positioning in line with core customer segments</td>
<td>• Extend customer model and customer research to New Zealand</td>
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<td>• Delivered modernised pricing approach using real-time models to optimise new business conversion</td>
<td>• Accelerate digital transformation, focused on motor claims and SME direct</td>
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<td>• Implemented more detailed, active, real-time advocacy and experience measures</td>
<td>• Establish Application Programming Interface strategy and governance to support ecosystem development and partnering opportunities</td>
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<tr>
<td><strong>Customer</strong></td>
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<tr>
<td>• Progressed claims systems consolidation, with all motor claims in Australia lodged on single platform</td>
<td>• Complete claims component of systems consolidation</td>
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<tr>
<td>• Commenced decommissioning of legacy systems</td>
<td>• Continue transition of targeted activities to operational partners</td>
</tr>
<tr>
<td>• Completed a second tranche of operational partnering, and commenced third tranche</td>
<td>• Embed operational partnering excellence framework</td>
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<tr>
<td>• Consolidated Australian insurance licences</td>
<td>• Enhance preferred repairer motor claims supply chain model</td>
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<tr>
<td><strong>Simplification</strong></td>
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<tr>
<td>• Embedded Australia Division operating structure, effective July 2017</td>
<td>• Co-creation of new products and services via Firemark Labs – collaboration and investment in future capabilities</td>
</tr>
<tr>
<td>• Established Leading@IAG as management and leadership framework</td>
<td>• Pursuit of new partnership opportunities</td>
</tr>
<tr>
<td>• Launched Firemark Labs in Sydney and Singapore to drive innovation</td>
<td>• Continue to invest in workforce to build the skills and capabilities for the workforce of the future</td>
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IN THE NEWS.

Migrants coming to Australia are bringing more than cultural diversity, according to research released by CGU Insurance on 22 January 2018. More than 900 business owners were surveyed as part of the Migrant Small Business Report developed by CGU. The report found that migrant small business owners are making a significant contribution to our economy, including by creating thousands of new jobs. Migrant business owners are entrepreneurial, innovative and ambitious and their focus on creating jobs and business growth means migrant-owned businesses could potentially create up to 200,000 new jobs in the next five to ten years.

“There are more than 620,000 migrant-owned businesses in Australia employing over 1.41 million Australians, yet the significant contribution migrant small business owners make to our country is largely an untold story,” said Kate Wellard, Small Business Spokesperson for CGU Insurance.

“Our research helps challenge perceptions that our migrants are taking more than they’re giving, and we’re keen to share this story – one of successful, hardworking and innovative migrants and the positive impact they have on our business community.”

CGU REPORT HIGHLIGHTS HARD-WORKING MIGRANT BUSINESS OWNERS
BRINGING HAMID RANJBARIAN’S STORY TO LIFE
To coincide with the release of the report, CGU launched a national television campaign on 26 January 2018 featuring the story of one of its migrant small business customers, Hamid Ranjbarian.

Hamid and his family, originally from Iran, were granted refugee status and provided the opportunity to start a new life in Australia in 2013.

“When we arrived, I didn’t speak any English at all and had to learn by speaking to people,” said Hamid. “One of the biggest differences between Iran and Australia is the rules and regulations. In Iran, it’s all about experience, but here I needed a qualification to practice herbal medicine so I needed a new job.

“I had heard that Iranians have a reputation for quality painting work, so I decided to start my own painting business, AAA Quality Painting & Decorating.

“I have had so much support in Australia. Lots of people have helped me get my business up and running and I have never felt like I am in another country; I feel like I am in my country.

“I now employ 15 people and have many painting projects coming up, which means I might be able to hire more painters too.

“For me, success is seeing the result of your hard work. I also want to give back to Australia by employing people, growing my business and paying my taxes, because it has given my family a new life.”

A scene from the CGU commercial illustrating the migrant small business customer Hamid Ranjbarian’s story; top of page, Hamid.

To read the complete report and view other case studies, visit: www.cgu.com.au/migrantsmallbusiness
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 owned 70% by IAG and 30% by RACV.

2 IAG owns 100% of WFI Insurance Limited (WFI), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an authorised representative agreement with WFI.

3 IAG holds a 98.61% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.

4 IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.

5 IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

6 IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.

7 IAG owns 80% of PT Asuransi Parolamas, based in Indonesia.

All ownership percentages are as at 31 December 2017.