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FY21 Investor Report



11 August 2021

Insurance Australia Group Limited ABN 60 090 739 923
This release has been authorised by the IAG Board

IMPORTANT INFORMATION

This report contains general information current as at 11 August 2021 and is not a recommendation or advice in relation to any product or service offered by Insurance Australia Group Limited (IAG) or its 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) and investors should consult with their own professional advisers.

No representation or warranty, express or implied, is made as to the accuracy, adequacy, completeness or reliability of any statements (including forward-looking statements or forecasts), estimates or opinions, or the accuracy or reliability of the assumptions on which they are based.

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References to currency are to Australian dollars, unless otherwise specified. Prevailing exchange rates have been used to convert local currency amounts into Australian dollars, where appropriate.

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Information previously included in Appendices A to D (Brand Portfolio, Business Snapshot, Key Relationships, Geographical & Product Diversification) is available in IAG's Corporate Profile and can be located at the following link at IAG's corporate website:

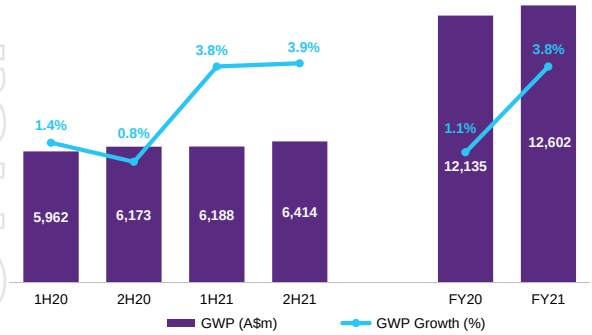
https://www.iag.com.au/about-us/what-we-do

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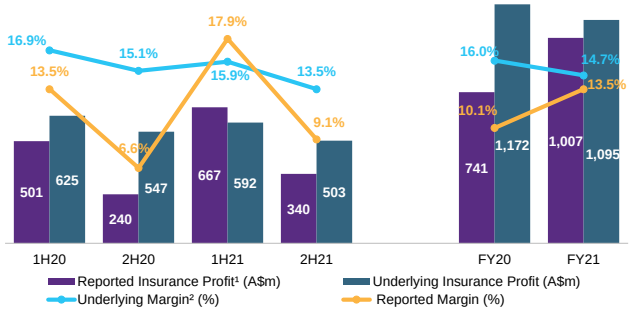
FY21 RESULTS

KEY RESULTS	FY20 A$m	1H21 A$m	2H21 A$m	FY21 A$m	FY21 vs FY20 Mvt
Gross written premium (GWP)	**12,135**	**6,188**	**6,414**	**12,602**	**+3.8%**
Net earned premium (NEP)	7,363	3,723	3,750	7,473	+1.5%
Insurance Profit[1]	**741**	**667**	**340**	**1,007**	**+35.9%**
Net profit/(loss) after tax	435	(460)	33	(427)	nm
Cash earnings	**279**	**462**	**285**	**747**	**nm**
Reported insurance margin	10.1%	17.9%	9.1%	13.5%	+340bps
Underlying Insurance Margin[2]	**16.0%**	**15.9%**	**13.5%**	**14.7%**	**-130bps**
Diluted EPS (cents per share)	18.49	(19.73)	1.34	(17.82)	nm
Cash EPS (cents per share)	12.12	19.82	11.56	31.16	nm
Diluted cash EPS (cents per share)	12.12	17.88	10.80	28.51	nm
Cash return on equity (ROE)	4.5%	15.5%	9.0%	12.0%	nm
Dividend (cents per share)	**10.0**	**7.0**	**13.0**	**20.0**	**+100%**
Common Equity Tier 1 Capital (CET1) multiple	1.23	1.19	1.06	1.06	-17pts

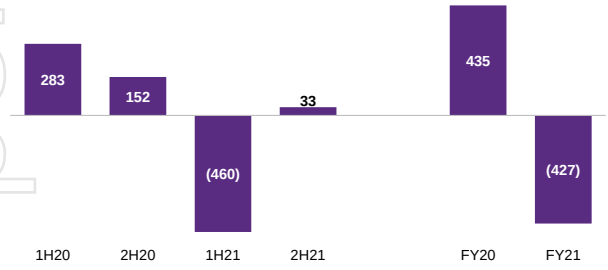
GWP GROWTH



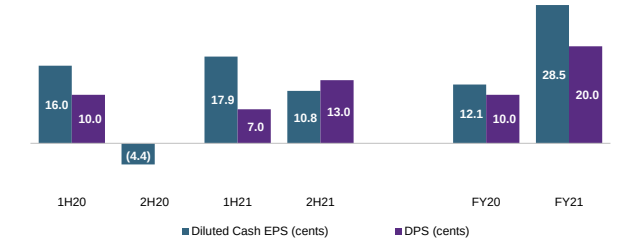
INSURANCE PROFIT & MARGIN



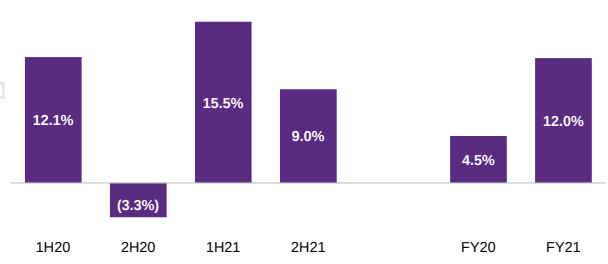
NET PROFIT/(LOSS) AFTER TAX (A$M)



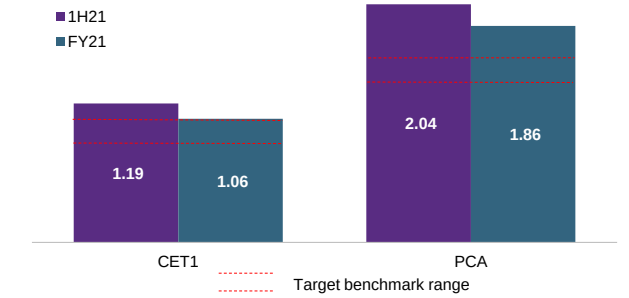
DILUTED CASH EPS & DPS



CASH ROE



REGULATORY CAPITAL (MULTIPLE)



[1]The FY21 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 FY21 Financial Report (Appendix 4E). A reconciliation between the two is provided on page 6 of this document and on page 8 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's FY21 net loss after tax is the same in this document and in the Financial Report.

[2]IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; reserve releases or strengthening and credit spread movements. Prior to FY21, the definition adjusted for reserve releases or strengthening in excess or below 1% of net earned premium. Comparative periods have not been restated to incorporate the definition from FY21.

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1. EXECUTIVE SUMMARY

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GROUP HIGHLIGHTS

- Sound GWP growth and resilient underlying business performance vs FY20
- New operating model deployed to embed clear accountability and drive improved performance
- Demonstrated progress across all four strategy areas: customer growth, building better businesses, digital and risk
- Significant investment in risk management and capability to address unusual items that impacted FY21
- $427m net loss after tax, cash earnings excluding unusual items of $747m equates to 12% cash ROE
- Continued capital strength, with CET1 ratio in the upper end of targeted range

GROSS WRITTEN PREMIUM

- GWP growth of 3.8% over FY21, or 4.3% adjusting for foreign currency translation effects
- Momentum maintained in 2H21, with GWP growth of 3.9% after growth of 3.8% in 1H21
- Growth predominantly rate-driven, with ~1.2% direct customers growth in Australia, strong rate growth across commercial classes in Australia and solid rate increases in all key classes in New Zealand (NZ)

INSURANCE PROFITABILITY

- FY21 underlying insurance margin of 14.7%, lower than 16.0% in FY20 (15.0% in FY20 excluding 1% reserve release assumption, to align with the underlying margin definition from FY21)
- Adjusting FY21 for the midpoint of the estimated net $60-$70m benefit from COVID-19 (realised in 1H21), underlying margin of 13.8% compared to 15.0% in FY20, which had a neutral COVID-19 impact
- Lower 2H21 underlying margins of 13.5% vs 1H21 of 14.2% (ex-COVID-19) from the net effect of non-recurring expenses, lower reinsurance costs and reversal of the benign large loss experience in NZ
- Firm recovery in reported margins to 13.5% in FY21 from 10.1% in FY20
- Reported margins impacted by natural perils above allowance ($84m) and further strengthening of prior year reserves ($81m) partly offset by positive credit spread gains ($77m)

DIRECT INSURANCE AUSTRALIA (DIA) HIGHLIGHTS

- GWP grew 4.3% through rate and volume growth, with a stronger 2H21 performance from motor
- Customers served grew ~1.2% to ~4.8 million
- Excluding COVID-19 benefits, underlying margins remained strong at ~20% across FY21

INTERMEDIATED INSURANCE AUSTRALIA (IIA) HIGHLIGHTS

- 5.6% GWP growth, with high single-digit growth achieved across commercial lines
- Rate increases averaged around 8% over FY21; part of deliberate and ongoing portfolio management
- Excluding COVID-19 effects in the prior year, underlying margins improved to around 4% in FY21

NEW ZEALAND HIGHLIGHTS

- Local currency GWP growth of 2.8%, largely driven by rate increases across all key portfolios
- Volume growth in commercial property, private and commercial motor portfolios
- A lower FY21 underlying margin of 16.4% partly reflecting a return to pre-COVID-19 claims trends

ADDITIONAL MATTERS

- Business interruption provision of $1,236m as announced on 20 November 2020 unchanged
- Further pre-tax charge including allowance for uncertainty of $238m in FY21 for customer refunds
- Pre-tax charge of $51m for remediation payments and costs relating to a payroll compliance review
- Announced proposed sale of Malaysian business, with ~$90m expected loss recorded as impairment
- Maintain no net insurance exposure to trade credit policies sold through BCC Trade Credit

CAPITAL & DIVIDENDS

- Final dividend of 13.0¢ per share, unfranked – taking FY21 payout ratio to 66.0% of cash earnings
- Strong CET1 ratio at 1.06 (0.93 after final dividend); ~6pts improvement expected from Malaysian sale

2. STRATEGY

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Helping customers manage risk has been IAG's business for over 160 years, forming the heart of IAG's Purpose, ***to make your world a safer place***.

COVID-19 materially disrupted local and global markets and the lives of customers in 2020 and 2021. In these uncertain times, IAG's Purpose is more important than ever and guides IAG's ambition to serve every Australian and New Zealander. Achieving this ambition requires being Purpose-led, customer focused and commercially disciplined.

Through IAG's investment in customer experience, simplification and agility over the last five years, it is well positioned for the future. IAG's trusted brands, supply chain scale, deep data assets and financial strength are key attributes, providing competitive advantage.

IAG's long-term objective remains: the delivery of top quartile Total Shareholder Return, with a sustainable growth profile. To realise this, IAG has reset its strategy to ***'create a stronger, more resilient IAG'***. IAG is driving focus, adapting its business model and playing to its strengths to capitalise on trends shaping the operating environment.

Four strategic pillars provide focus, inform IAG's operating model and underpin IAG's three to five year strategy:

Grow with our customers

- IAG will grow as Australians and New Zealanders grow by delivering unparalleled personalised service when customers need it most;
- IAG will focus the strength of its brands to meet the evolving needs of consumers and enable the next wave of growth in small businesses across Australia and New Zealand; and
- IAG will increase its customer reach to make the world safer for more Australians and New Zealanders.

Build better businesses

- IAG will help Australian and New Zealand businesses thrive by continuing to focus on underwriting expertise, active portfolio management and pricing excellence; supporting strong economies in its home markets; and
- IAG will evolve by investing in its core competencies, delivering consistent high-quality returns to shareholders and enhancing its competitive advantage.

Create value through digital

- IAG will be digital to the core by creating connected customer experiences that seamlessly assist and reward customers as they unlock the value of IAG's network; and
- IAG will transform customer experience while re-architecting core platforms and using intelligent automation to capture value.

Manage our risks

- IAG will manage the risks in its own business so that it can continue to manage the risks in its customers' lives, by building a strong, active risk culture and meeting its obligations to the communities it serves;
- IAG will invest in process, capability, infrastructure and operational excellence to create a stable, scalable and efficient business; and
- IAG will continue to be innovative and have a strong capital platform, ensuring its customers are appropriately supported by its financial strength.

IAG's strategy balances strengthening the fundamentals of insurance while evolving to be a digital leader. It will ensure IAG is a stronger, more resilient organisation with increased customer reach.

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Clear strategic focus

Purpose	Strategy
We make your world a safer place	Create a stronger, more resilient IAG

Focus	Approach	Outcomes
Grow with our customers	Deliver unparalleled personalised service when our customers need us the most	More customers, more products and greater scale
Build better businesses	Focus on underwriting expertise, active portfolio management and pricing excellence	Stable earnings over time
Create value through digital	Create connected experiences that seamlessly assist and reward our customers as they unlock the value of our network	Better customer experiences at a lower cost
Manage our risks	Actively manage capital and risk in our business so we can continue to manage the risks in our customers' lives	Disciplined execution, enhanced accountability and appropriate returns

3. GROUP RESULTS

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FINANCIAL PERFORMANCE

GROUP RESULTS	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Gross written premium	**5,962**	**6,173**	**6,188**	**6,414**	**12,135**	**12,602**
Gross earned premium	6,105	6,059	6,190	6,155	12,164	12,345
Reinsurance expense	(2,396)	(2,405)	(2,467)	(2,405)	(4,801)	(4,872)
Net earned premium	**3,709**	**3,654**	**3,723**	**3,750**	**7,363**	**7,473**
Net claims expense	(2,433)	(2,577)	(2,281)	(2,526)	(5,010)	(4,807)
Commission expense	(337)	(336)	(337)	(341)	(673)	(678)
Underwriting expense	(519)	(565)	(539)	(581)	(1,084)	(1,120)
Underwriting profit/(loss)	**420**	**176**	**566**	**302**	**596**	**868**
Investment income on technical reserves	81	64	101	38	145	139
Insurance profit/(loss)	**501**	**240**	**667**	**340**	**741**	**1,007**
Net corporate expense	(152)	213	(1,310)	(200)	61	(1,510)
Interest	(54)	(38)	(42)	(47)	(92)	(89)
Profit/(loss) from fee-based business	(2)	(21)	(13)	(16)	(23)	(29)
Share of profit/(loss) from associates	29	30	18	19	59	37
Investment income on shareholders' funds	50	(231)	138	168	(181)	306
Profit/(loss) before income tax and amortisation	**372**	**193**	**(542)**	**264**	**565**	**(278)**
income tax expense	(90)	53	187	(62)	(37)	125
Profit/(loss) after income tax (before amortisation)	**282**	**246**	**(355)**	**202**	**528**	**(153)**
Non-controlling interests	20	(79)	(97)	(53)	(59)	(150)
Profit/(loss) after income tax and non-controlling interests (before amortisation)	**302**	**167**	**(452)**	**149**	**469**	**(303)**
Amortisation and impairment	(15)	(15)	(4)	(107)	(30)	(111)
Profit/(loss) attributable to IAG shareholders from continuing operations	**287**	**152**	**(456)**	**42**	**439**	**(414)**
Net profit/(loss) after tax from discontinued operations	(4)	-	(4)	(9)	(4)	(13)
Profit/(loss) attributable to IAG shareholders	**283**	**152**	**(460)**	**33**	**435**	**(427)**

Insurance Ratios - Continuing Business	1H20	2H20	1H21	2H21	FY20	FY21
Loss ratio	65.6%	70.5%	61.3%	67.4%	68.0%	64.3%
Immunised loss ratio	65.6%	68.6%	61.0%	68.4%	67.1%	64.7%
Expense ratio	23.1%	24.7%	23.6%	24.6%	23.8%	24.1%
Commission ratio	9.1%	9.2%	9.1%	9.1%	9.1%	9.1%
Administration ratio	14.0%	15.5%	14.5%	15.5%	14.7%	15.0%
Combined ratio	88.7%	95.2%	84.9%	92.0%	91.8%	88.4%
Immunised combined ratio	88.7%	93.3%	84.6%	93.0%	90.9%	88.8%
Reported insurance margin	**13.5%**	**6.6%**	**17.9%**	**9.1%**	**10.1%**	**13.5%**
Underlying insurance margin	**16.9%**	**15.1%**	**15.9%**	**13.5%**	**16.0%**	**14.7%**

Key Financial Metrics (Total Operations)	1H20	2H20	1H21	2H21	FY20	FY21
Cash earnings ($m)	380	(101)	462	285	279	747
Reported ROE (average equity) (% pa)	9.0%	5.0%	(15.4%)	1.0%	7.0%	(6.9%)
Cash ROE (average equity) (% pa)	**12.1%**	**(3.3%)**	**15.5%**	**9.0%**	**4.5%**	**12.0%**
Basic EPS (cents per share)	12.28	6.60	(19.73)	1.34	18.87	(17.82)
Diluted EPS (cents per share)	12.16	6.38	(19.73)	1.34	18.49	(17.82)
Cash EPS (cents per share)	16.49	(4.37)	19.82	11.56	12.12	31.16
Diluted cash EPS (cents per share)	**15.98**	**(4.37)**	**17.88**	**10.80**	**12.12**	**28.51**
DPS (cents per share)	**10.00**	**0.00**	**7.00**	**13.00**	**10.00**	**20.00**
Probability of adequacy	90%	90%	90%	90%	90%	90%
CET1 multiple	**1.15**	**1.23**	**1.19**	**1.06**	**1.23**	**1.06**
PCA multiple	1.80	1.97	2.04	1.86	1.97	1.86

KEY FOREIGN EXCHANGE RATES APPLIED

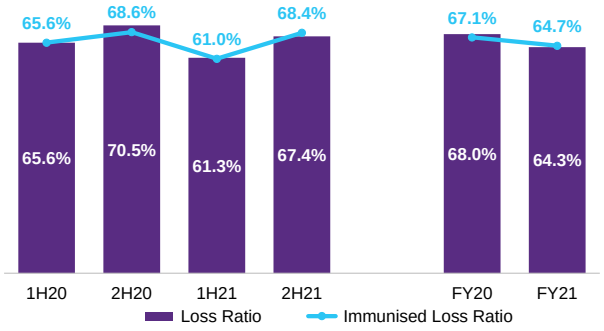
Units of foreign currency per A$	Balance Sheet (spot rate) FY20	Balance Sheet (spot rate) FY21	Income Statement (average rate) FY20	Income Statement (average rate) FY21
New Zealand dollar	1.0695	1.0744	1.0546	1.0745
Malaysian ringgit	2.9502	3.1167	2.8239	3.0812

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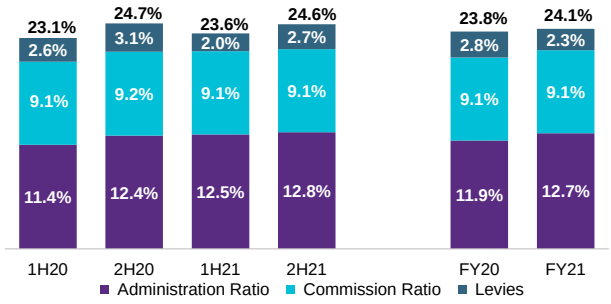
3. GROUP RESULTS

INSURANCE RATIOS

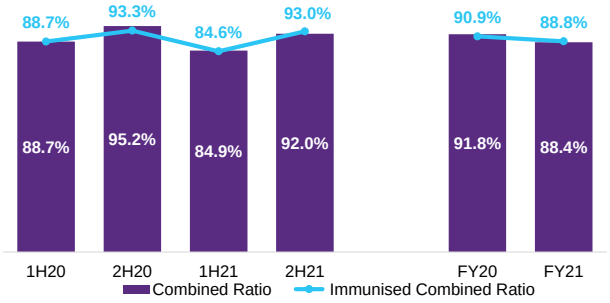
LOSS RATIO



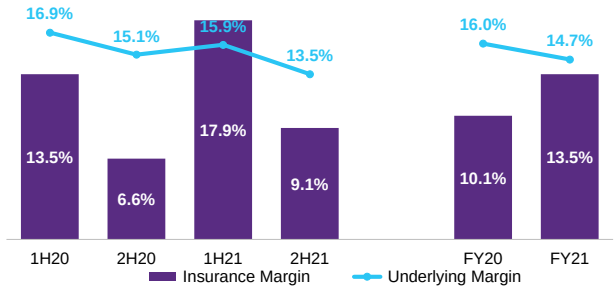
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



FY21 DIVISIONAL FINANCIAL PERFORMANCE

	Direct Insurance Australia		Intermediated Insurance Australia		New Zealand		Corporate & Other		Total	
	FY20 A$m	FY21 A$m	FY20 A$m	FY21 A$m	FY20 A$m	FY21 A$m	FY20 A$m	FY21 A$m	FY20 A$m	FY21 A$m
Gross written premium	**5,533**	**5,772**	**3,834**	**4,048**	**2,754**	**2,778**	**14**	**4**	**12,135**	**12,602**
Gross earned premium	5,491	5,658	3,925	3,949	2,733	2,730	15	8	12,164	12,345
Reinsurance expense	(2,144)	(2,191)	(1,550)	(1,552)	(1,098)	(1,124)	(9)	(5)	(4,801)	(4,872)
Net earned premium	**3,347**	**3,467**	**2,375**	**2,397**	**1,635**	**1,606**	**6**	**3**	**7,363**	**7,473**
Net claims expense	(2,185)	(2,208)	(1,896)	(1,686)	(919)	(910)	(10)	(3)	(5,010)	(4,807)
Commission expense	(100)	(102)	(387)	(387)	(182)	(187)	(4)	(2)	(673)	(678)
Underwriting expense	(505)	(523)	(355)	(384)	(223)	(212)	(1)	(1)	(1,084)	(1,120)
Underwriting profit/(loss)	**557**	**634**	**(263)**	**(60)**	**311**	**297**	**(9)**	**(3)**	**596**	**868**
Investment income on technical reserves	70	84	56	50	19	8	-	(3)	145	139
Insurance profit/(loss)	**627**	**718**	**(207)**	**(10)**	**330**	**305**	**(9)**	**(6)**	**741**	**1,007**
Profit/(loss) from fee based business	(16)	(15)	5	4	-	-	(12)	(18)	(23)	(29)
Share of profit/(loss) from associates	(1)	(3)	-	-	-	-	60	40	59	37
Total divisional results	**610**	**700**	**(202)**	**(6)**	**330**	**305**	**39**	**16**	**777**	**1,015**
Insurance Ratios										
Loss ratio	65.3%	63.7%	79.8%	70.3%	56.2%	56.7%			68.0%	64.3%
Expense ratio	18.1%	18.0%	31.2%	32.1%	24.7%	24.8%			23.8%	24.1%
Commission ratio	3.0%	2.9%	16.3%	16.1%	11.1%	11.6%			9.1%	9.1%
Administration ratio	15.1%	15.1%	14.9%	16.0%	13.6%	13.2%			14.7%	15.0%
Combined ratio	83.4%	81.7%	111.0%	102.4%	80.9%	81.5%			91.8%	88.4%
Insurance margin	18.7%	20.7%	(8.7%)	(0.4%)	20.2%	19.0%			10.1%	13.5%
Underlying insurance margin	26.1%	21.4%	(0.7%)	3.9%	18.6%	16.4%			16.0%	14.7%

3. GROUP RESULTS

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RECONCILIATION TO FINANCIAL REPORT (APPENDIX 4E)

The reported insurance profit reconciles to that in the Financial Report (Appendix 4E) after allowance for the customer refunds provision, the business interruption provision and the payroll compliance provision discussed under Additional Matters. These items were reclassified to net corporate expense for Investor Report purposes, as outlined below:

INSURANCE PROFIT	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Investor Report	**501**	**240**	**667**	**340**	**741**	**1,007**
Customer refunds provision	(150)	(96)	(75)	(163)	(246)	(238)
Business interruption provision	-	-	(1,150)	-	-	(1,150)
Payroll compliance provision	-	-	-	(51)	-	(51)
Financial Report (Appendix 4D/4E)	**351**	**144**	**(558)**	**126**	**495**	**(432)**

This Investor Report treatment reflects the fact that the items concerned are not expected to be a feature of IAG's future earnings profile. Analysis and commentary on the insurance profit and margin excludes the three reconciling items listed above.

COVID-19 IMPACTS ON FY21 PERFORMANCE

The predominant impact from the COVID-19 pandemic occurred in 1H21, where it is estimated to have had a modestly negative effect on IAG's GWP and a net positive impact on its insurance profit (which excludes the impact of the $1,150m business interruption provision). No material overall impact was experienced in 2H21. The key impacts in 1H21 included:

- An estimated GWP reduction of approximately $50m compared to FY20 (FY20: ~$80m reduction compared to FY19), predominantly from lower new business opportunities in Australian personal lines during the lockdown in Victoria and reduced travel insurance premium. Business retention has held at high levels in most core portfolios. COVID-19 had a negligible impact on New Zealand GWP during the year;
- A pre-tax earnings benefit of approximately $100m from lower motor claim frequency, which impacted 1H21 when the extended lockdown in Victoria occurred. Claim frequency returned to more normal levels in 2H21;
- A partial offset to this earnings benefit of around $25m from claims incurred in other COVID-19 affected business classes such as landlords' insurance, travel insurance and commercial liability and the earn through of lower GWP; and
- A further offset from increased operating expenses of around $10m flowing from COVID-19 related measures and responses, mainly from employees 'working from home' and changes to offshore worksite arrangements.

No material overall impact from COVID-19 experienced in 2H21

In aggregate, COVID-19 had an estimated net positive impact on the FY21 underlying insurance profit of around $60-$70m (~0.9% of NEP) compared to a net neutral impact in FY20. The COVID-19 impact on underlying margins is discussed in more detail in divisional commentary. All underwriting profit impacts are expressed on a post-quota share basis.

The $1,150m increase in the provision for business interruption to $1,236m announced on 20 November 2020 is discussed under Additional Matters. Due to the unusual nature and scale of the provision in FY21, it has been shown within the net corporate expense line (FY20: $86m provision included in insurance profit). The overall COVID-19 impact in FY20 was broadly net neutral to insurance profit.

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3. GROUP RESULTS

NEW DIVISIONAL OPERATING MODEL IN AUSTRALIA

IAG announced on 2 November 2020 that the Australia Division would be split into DIA and IIA, which was effective immediately. In March 2021, IAG announced three permanent executive appointments to IAG's Group Leadership Team to lead the three divisions. All key employee changes under the new operating model had been confirmed by 30 June 2021. The operating model provides greater clarity on roles and responsibilities and is more aligned to IAG's brands and customer propositions. IAG has reported separate results for the two new divisions as part of the FY21 result and comparative results have been restated accordingly.

New reporting segments in Australia

PREMIUMS

Reported FY21 GWP of $12,602m increased by 3.8% over FY20.

- Growth of 4.3% to $5,772m was achieved in DIA and comprised:
  - Continued GWP momentum in 2H21 with growth of 4.8%, after achieving 3.9% growth in 1H21. Growth was driven by both volumes and higher rates across personal short-tail classes, that broadly matched claims inflation.
- Growth of 5.6% to $4,048m was achieved in IIA and comprised:
  - Rate increases that averaged 8% over FY21, a dominant feature across IIA driven by deliberate portfolio management. Commercial portfolios on average recorded high single-digit GWP growth with stable retention, whereas personal lines were relatively flat on FY20.
- Growth of 0.9% in New Zealand to $2,778m, including an unfavourable foreign exchange translation effect of around 190bps:
  - Both Business and Consumer delivered sound growth, averaging 2.8% in local currency. This was driven by a combination of premium rates and relatively stable retention and new business levels.

Reported GWP growth of 3.8% in FY21

INSURANCE MARGIN

Underlying margins continue to be adjusted for prior year reserve releases or strengthening, natural perils claim costs above or below related allowances and credit spread gains or losses. From FY21, IAG's underlying margin definition no longer factors in a 1% allowance for reserve releases.

INSURANCE MARGIN IMPACTS - Continuing Business	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Underlying insurance profit	**625**	**547**	**592**	**503**	**1,172**	**1,095**
Reserve releases/(strengthening)	5	(53)	(15)	(66)	(48)	(81)
Reserve release assumption	(37)	(37)	-	-	(74)	-
Natural perils	(419)	(485)	(290)	(452)	(904)	(742)
Natural peril allowance	320	321	329	329	641	658
Credit spreads	7	(53)	51	26	(46)	77
Reported insurance profit[1]	**501**	**240**	**667**	**340**	**741**	**1,007**
Underlying insurance margin[2]	**16.9%**	**15.1%**	**15.9%**	**13.5%**	**16.0%**	**14.7%**
Reserve releases/(strengthening)	0.1%	(1.5%)	(0.4%)	(1.8%)	(0.7%)	(1.1%)
Reserve release assumption	(1.0%)	(1.0%)	-	-	(1.0%)	-
Natural perils	(11.3%)	(13.3%)	(7.8%)	(12.1%)	(12.3%)	(9.9%)
Natural peril allowance	8.6%	8.8%	8.8%	8.8%	8.7%	8.8%
Credit spreads	0.2%	(1.5%)	1.4%	0.7%	(0.6%)	1.0%
Reported insurance margin[3]	**13.5%**	**6.6%**	**17.9%**	**9.1%**	**10.1%**	**13.5%**

Notes: (1) Reported insurance profit is the insurance profit on a management results basis. Based on the statutory results, the equivalent statutory insurance loss for the current year is $432m (FY20: $495m profit). (2) From FY21, IAG's underlying margin definition no longer factors in an allowance for reserve releases, reflecting IAG's view of uncertainty attached to long tail reserve development in the current economic and operating environment. FY20 comparatives are reported on the previous basis, which included an allowance of 1% of NEP for reserve releases. (3) Reported insurance margin is the insurance profit as a percentage of NEP, both on a management results basis. Based on the statutory results, the equivalent statutory insurance margin for the current year is (5.8%) (FY20: 6.8%).

3. GROUP RESULTS

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IAG's FY21 underlying insurance margin was 14.7%, lower than 16.0% in FY20 (15.0% excluding the 1% normalised reserve releases included in FY20). Features of the net movement in FY21 compared to FY20 were:

- A full year net benefit of around $60-$70m from COVID-19 effects experienced in 1H21. Excluding the benefit from COVID-19 (based on the midpoint), the FY21 underlying margin was 13.8%;
- The net COVID-19 impact at Group level was largely neutral for FY20 margins, meaning the comparable underlying margin was 15.0%;
- The reduction in underlying margins from 15.0% in FY20 to 13.8% in FY21 (both excluding 1% normalised release assumption and COVID-19 effects) reflects a combination of influences including:
  - The impact of lower fixed income yields on investment income, after the significant step change in yields between 1H20 and 2H20, and further pressure on yields in 1H21;
  - High single-digit growth in gross underwriting expenses, impacted by an increase in compliance, governance and corporate insurance costs, and additional Group wide expenses of around $30m (pre-quota share) associated with IAG's new operating model and property consolidation costs in New Zealand (both of which are not expected to recur);
  - A deterioration in commercial long tail classes compared to FY20 mainly due to adverse claims experience in professional risks and general liability; and
  - Some offset from the impact of higher premium rates, particularly in short tail commercial and personal lines in IIA.

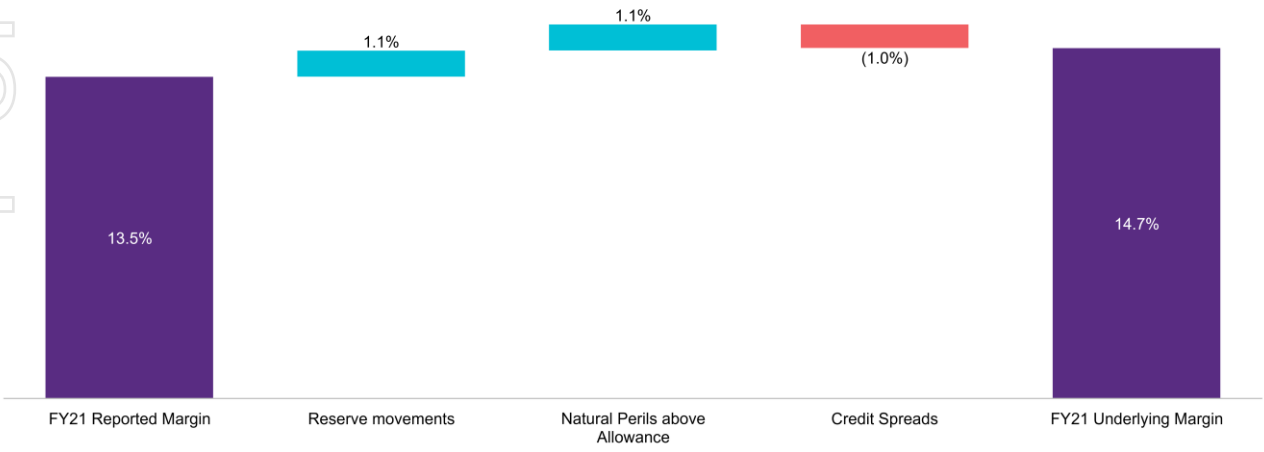
1H21 underlying margin benefits from lower motor frequency, not repeated in 2H21

IAG's 2H21 underlying insurance margin was 13.5%, lower than 14.2% in 1H21 (1H21: 15.9% underlying margin adjusted for the 1.7% estimated benefit from COVID-19). Key influences on 2H21 compared to 1H21 included:

- Lower non-quota share reinsurance costs;
- Additional non-recurring expenses referred to above; and
- Reversal of the relatively benign large loss experience in New Zealand during 1H21, with the full year experience being broadly in line with expectations.

2H21 underlying margin impacted by non-recurring expenses

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING



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3. GROUP RESULTS

The reported insurance profit of $1,007m in FY21 was higher than FY20 and equates to a reported margin of 13.5% (10.1% in FY20). In addition to the underlying margin influences outlined above, this included:

- Unfavourable net natural peril experience of $84m in FY21, lower than $263m of unfavourable experience in FY20;
- An $81m impact from strengthening prior year reserves, compared to a $48m strengthening in FY20; and
- A favourable impact from the narrowing of credit spreads of $77m (negative spread impact of $46m in FY20).

DIVISIONAL INSURANCE MARGINS

As highlighted in the 1H21 Investor Report, profitability in the two new divisions in Australia has been significantly skewed in favour of DIA in recent halves.

DIVISIONAL INSURANCE MARGINS	1H20	2H20	1H21	2H21	FY20	FY21
Direct Insurance Australia						
Underlying insurance margin	23.0%	29.4%	23.2%	19.8%	26.1%	21.4%
Reported insurance margin	16.9%	20.6%	24.5%	17.0%	18.7%	20.7%
Intermediated Insurance Australia						
Underlying insurance margin	6.3%	(7.8%)	3.8%	3.9%	(0.7%)	3.9%
Reported insurance margin	5.4%	(22.9%)	7.0%	(7.9%)	(8.7%)	(0.4%)
New Zealand						
Underlying insurance margin	18.9%	18.3%	18.6%	14.3%	18.6%	16.4%
Reported insurance margin	18.9%	21.5%	20.4%	17.7%	20.2%	19.0%

Note: Insurance margin is on a management results basis. Prior to FY21, the underlying margin definition adjusted for reserve releases or strengthening in excess or below 1% of net earned premium. Comparative periods have not been restated to incorporate the new definition from FY21. Based on the statutory results, the equivalent statutory insurance margin for the current year is 19.1% (FY20: 14.4%) for DIA, (59.4)% (FY20: (12.6)%) for IIA and 18.9% (FY20: 20.2%) for New Zealand.

Detailed commentary on the insurance margin performance is provided in the divisional sections of the Investor Report. A short summary is provided below.

- DIA's underlying margin of 21.4% in FY21 was lower than the prior year (FY20: 26.1%):
  - Close to half of this change was the consequence of FY20 assuming a normalised level of reserve releases of 1% of NEP and net COVID-19 benefits reducing from around ~$100m (~300bps) in FY20 to $60-$70m (~190bps) in FY21; with some upward pressure on average motor claim costs also evident in 2H21.
  - In addition to this, higher underwriting expenses and lower investment income also reduced underlying margins.
  - DIA's reported insurance margin of 20.7% in FY21 was higher than 18.7% in FY20, reflecting significantly lower natural perils experience.
- IIA reported an insurance loss of $10m in FY21 (-0.4% of NEP), which was a significant improvement relative to FY20, when it reported an insurance loss of $207m (-8.7% of NEP):
  - IIA's underlying margin in the second half of FY20 was adversely impacted by COVID-19 effects (~$100m or ~420bps on a full year basis) and included a normalised level of reserve releases of 1%.
  - Excluding these items, IIA's FY20 underlying margin was ~2.5%. FY21's underlying margin was 3.9% and benefitted from the impact of higher premium rates. Returns remain well below acceptable levels.
- New Zealand's reported insurance margin was 19.0% in FY21, moderately lower than 20.2% in FY20:

Continued strong DIA margin, with IIA showing improvement

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3. GROUP RESULTS

- A lower FY21 underlying margin of 16.4% (FY20: 18.6%) partly reflected a return to a pre-COVID-19 claims environment with FY20 benefiting from lower claim frequency.
- Peril costs approximated allowances in both periods, however FY21's reported margins benefitted from higher short-tail reserve releases.

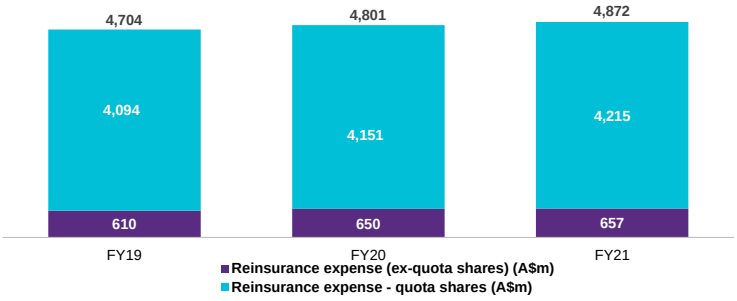
REINSURANCE EXPENSE

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

The FY21 reinsurance expense of $4,872m compares to $4,801m in FY20, an increase of approximately 2%.

Modest increase in non-quota share reinsurance expense

REINSURANCE EXPENSE



Quota share-related reinsurance expense increased broadly in line with gross earned premium growth. Non-quota share reinsurance expenses increased by ~1% to $657m and reflected a combination of:

- A modest increase in catastrophe reinsurance rates, stemming from the calendar 2021 renewal;
- Additional non-recurring costs associated with the transition of aggregate cover from calendar to a financial year basis; and
- Low overall growth in IAG's risk exposures.

CLAIMS

IAG's immunised underlying loss ratio, which reflects trends in underlying or working claims, was 53.7% in FY21, broadly similar to 54.1% in FY20. This ratio excludes all reserve releases or strengthening, natural perils costs and discount rate adjustments.

IMMUNISED LOSS RATIO Continuing Business	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Immunised underlying net claims expense	**2,018**	**1,968**	**1,967**	**2,046**	**3,986**	**4,013**
Discount rate adjustment	1	71	9	(38)	72	(29)
Reserving and perils effects	414	538	305	518	952	823
Reported net claims expense[1]	**2,433**	**2,577**	**2,281**	**2,526**	**5,010**	**4,807**
Immunised underlying loss ratio	**54.4%**	**53.8%**	**52.8%**	**54.5%**	**54.1%**	**53.7%**
Discount rate adjustment	-	1.9%	0.3%	(1.0%)	0.9%	(0.4%)
Reserving and perils effects	11.2%	14.8%	8.2%	13.9%	13.0%	11.0%
Reported loss ratio[2]	**65.6%**	**70.5%**	**61.3%**	**67.4%**	**68.0%**	**64.3%**

Notes: (1) Reported net claims expense is the net claims expense on a management results basis. Based on the statutory results, the equivalent statutory net claims expense for the current year is $5,957m (FY20: $5,010m).(2) Reported loss ratio is net claims expense as a percentage of net earned premium. Based on the statutory results, the equivalent statutory loss ratio for the current year is 80.3% (FY20: 69.2%).

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3. GROUP RESULTS

Underlying claims trends

Underlying claim trends broadly stable

At a Group level, net COVID-19 claims benefits were approximately $50m in FY20 and $75m in FY21, driven largely by lower motor claims frequency. Excluding the net COVID-19 impact, the underlying loss ratio was stable at around 54.7% in both years. This was a function of offsetting positive and negative factors.

- On the positive side, the ratio benefited from:
  - An improvement in IIA claims experience in short tail portfolios across personal and commercial lines compared to FY20 as a result of active portfolio management;
  - Lower average home claim costs in Australia driven by operational improvements related to a new performance framework for building partners rolled out in FY21 and early detection of water claims, which is likely due to more of IAG's customers working from home; and
  - The impact of higher premium rates.
- These improvements were offset by:
  - A deterioration in commercial long tail classes compared to FY20 mainly due to adverse claims experience in professional risks and general liability;
  - Some upward pressure on average motor claim costs, particularly in Victoria during 2H21, with modest inflation related to the cost and mix of replacement motor parts; and
  - An increase in home claims frequency in New Zealand, with average claim costs for home also increasing.

The increase in the underlying loss ratio from 52.8% in 1H21 to 54.5% in 2H21 is largely due to COVID-19 claims benefits in 1H21, as the ratio reflected a small improvement if this impact is excluded. Improvements in DIA's and IIA's underlying loss ratios were offset by New Zealand, where higher large (greater than NZ$100,000) home and commercial claims in 2H21 compared to 1H21 were reported, although on a full year basis these large claims were comparable to FY20.

Reserve Releases / Strengthening

Strengthening across long tail commercial lines in IIA

Prior period reserve strengthening of $81m occurred in FY21 (1H21: $15m) compared to a strengthening of $48m in FY20. This outcome reflected more adverse claim development across long tail classes than observed in recent years, particularly across the commercial liability portfolio where a sharp deterioration in average claim size has emerged.

The overall strengthening in FY21 reflects offsetting elements across IAG's businesses:

- Prior year reserve deterioration of $119m occurred mainly across commercial classes in IIA (1H21: $34m). Adverse trends appear to be driven by systemic issues where mixed economic conditions have enhanced focus on personal injury compensation. More specifically, the deterioration in IIA included:
  - ~$75m of strengthening related to liability classes, mainly due to higher average claim sizes in recent accident years and driven by superimposed inflation for medium-sized bodily injury claims, as claim frequency has improved (~$25m in 1H21);
  - ~$50m of professional risk reserve strengthening (~$30m in 1H21) as a result of an increased incidence of medium to large claims;
  - ~$20m of workers' compensation reserve strengthening driven by extended duration of claims and moderately higher frequency (~$15m in 1H21); partially offset by

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- Some positive claim settlements in commercial and personal short tail classes of around $25m, which mostly occurred in 1H21 (~$35m in 1H21).
- Releases of $36m were reported across a number of portfolios in New Zealand in FY21 (1H21: $18m) reflecting favourable working claims development.

Natural Perils

Net natural perils claim costs in FY21 were $742m, in line with the update provided by IAG on 16 June 2021. This was $84m above the $658m allowance for the period (FY20: $263m above allowance).

Net natural peril claim costs $84m above allowance

FY21 NATURAL PERIL COSTS BY EVENT	A$m
East Coast Low (Wamberal) and North Island (NZ) storms (July 2020)	16
East Coast Low storms (July 2020)*	17
NSW (Armidale/Tamworth) and South East QLD hail (October 2020)*	17
South East QLD (Springfield) and NSW Halloween giant hail (October 2020)*	17
NZ Napier flood (November 2020)*	16
South East AUS severe thunderstorms (December 2020)	15
WA (Perth Hills) bushfire (February 2021)	19
QLD/ NSW Heavy rain and flooding (March 2021)	135
Tropical Cyclone Seroja (April 2021)	68
VIC East Coast Low (June 2021)	56
Other events (<$15m)	366
Total	**742**

** Net of reinsurance recoveries*

- 1H21 was a relatively benign period for natural perils experience ($39m below 1H21 perils allowance).
  - Notable 1H21 losses included the East Coast Low in July 2020 and storm events that affected NSW and Queensland late in October.
  - IAG had fully eroded the deductible for the calendar 2020 aggregate cover by 30 June 2020 which meant that these events were capped by reinsurance recoveries under this aggregate cover.
- Three significant catastrophic weather events caused IAG to increase estimated FY21 net natural peril costs in 2H21.
  - In March 2021, widespread flooding and storm damage associated with heavy rain occurred across Queensland and NSW.
  - Other significant events included Cyclone Seroja which made landfall in Western Australia in April 2021 and extensive flooding which impacted parts of Victoria in June 2021.
  - None of these events were protected by IAG's financial 2021 aggregate cover.

EXPENSES

Total net operating expenses (commission and underwriting) were $1,798m in FY21, 2.3% higher than FY20. Gross underwriting expenses (ex levies and commissions paid or received) increased by 5.6% on FY20, to $1,650m.

3. GROUP RESULTS

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EXPENSES	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Gross underwriting expense ex levies	761	801	815	835	1,562	1,650
Levies	169	199	92	158	368	250
Total gross underwriting expenses	**930**	**1,000**	**907**	**993**	**1,930**	**1,900**
Gross commission expense	506	503	502	505	1,009	1,007
Total gross expenses	**1,436**	**1,503**	**1,409**	**1,498**	**2,939**	**2,907**
Reinsurance commission revenue	(580)	(602)	(533)	(576)	(1,182)	(1,109)
Total net expenses	**856**	**901**	**876**	**922**	**1,757**	**1,798**

Note: Total net expenses are presented on a management results basis. Based on the statutory results, the equivalent statutory total net expense for the current year is $2,034m (FY20: $1,878m).

The 5.6% increase in FY21 was a function of:

- An increase in compliance and governance costs and corporate insurance costs; with a step change in these costs predominantly a 1H21 feature;
- Some one-off additional expenses of ~$30m (pre-quota share) associated with implementing IAG's new operating model in Australia and property consolidation costs in New Zealand, which have been recognised in insurance profits; offset by
- A lower level of additional COVID-19 costs in FY21 compared to FY20 as discussed below.

FY20 and FY21 included approximately $50m and $10m (~$75m and ~$15m pre-quota share) respectively of additional cost incurred as a result of COVID-19, largely due to operating costs associated with 'working from home' and from the disruption of offshore service providers. Costs to close the AMI branch network in New Zealand were included in FY20.

Gross underwriting expenses (ex levies) increased at high single-digit levels compared to FY20, if both years are adjusted for estimated one-off COVID-19 costs and the additional expenses of ~$30m outlined above. On this basis, 2H21 gross underwriting expenses (ex levies) were relatively flat compared to 1H21.

Additional commentary on expenses:

- The decrease in levies from $368m in FY20 to $250m in FY21 reflects the combination of a modest increase in ESL in NSW and a reduction to the TEPLA (Transitional Excess Profits and Losses Adjustment) provision owing to moderately adverse claims experience compared to initial expectations. The provision movement ensures that NSW CTP profit recognition is in line with the legislated capped level. This effect was more prominent in 1H21 relative to 2H21.
- The reported administration ratio on an ex-levies basis increased to 12.7% (FY20: 11.9%), largely reflecting the reasons outlined above.
- The commission ratio of 9.1% has been steady over the past three halves, reflecting stable business mix.

Increase in underlying expenses includes some non-recurring elements

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY21 was $139m, compared to $145m in FY20. This outcome includes:

- The impact of higher average investment assets driven primarily by the capital raising associated with the business interruption provision;
- A modest increase in risk free rates in FY21, following the significant reduction in FY20; and

Lower average yield on technical reserves compared to FY20

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- A significant positive effect of $77m from the narrowing of credit spreads, compared to a loss of $46m in FY20.

After allowance for the factors outlined above, the average yield achieved in FY21 was significantly lower than that of FY20.

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

ADDITIONAL MATTERS

Provision for potential business interruption claims and capital raising

IAG announced on 20 November 2020 that it would recognise a total pre-tax provision of $1,236m for potential business interruption claims. This followed the 18 November 2020 unanimous decision of the Supreme Court of New South Wales Court of Appeal (NSWCA), which determined that pandemic exclusions that refer to the Quarantine Act and subsequent amendments, rather than the Biosecurity Act, are not effective to exclude cover for losses associated with COVID-19. On 25 June 2021, the High Court denied special leave for insurers to appeal the NSWCA's judgment.

Recognition of potential business interruption claims and decisive action to strengthen balance sheet

IAG had exposure to policy wordings that referenced the Quarantine Act, which accounts for approximately 80% of the total provision recognised. The balance reflects potential exposure to prevention of access clauses that generally operate when actions of governments or other legal authorities cause business interruption by preventing or restricting access to premises.

Of the total pre-tax provision of $1,236m, $1,150m has been included in the net corporate expense line in FY21. The net post-tax impact on IAG's FY21 earnings is $805m.

To reinforce its capital position following recognition of the business interruption provision, IAG completed a $650m institutional placement on 20 November 2020 and raised $126m via a retail Share Purchase Plan which concluded on 23 December 2020. In total, $776m of new equity capital was raised and approximately 154 million new fully paid ordinary shares were issued.

Extensive scenario testing of the adequacy of the provision has been undertaken in determining the year end position. This included comparison of actuarial estimates to client advised loss estimates for lodged claims, consideration of the stronger economic rebound and consideration of the impact of a number of short duration lockdowns which occurred across Australia's major cities in 2H21 and beyond to the date of this report. No further change to the net central estimate or provision has been made at 30 June 2021.

Extensive scenario testing of business interruption provision adequacy

Insurers commenced a second test case in the Federal Court of Australia in February 2021 to test the application of further issues around pandemic coverage in business interruption policies. The second test case will determine the meaning of policy wordings in relation to the definition of a disease, proximity of an outbreak to a business and prevention of access to premises due to a government mandate, as well as policies that contain a hybrid of these type of wordings, and other policy wording matters. The hearing for the second test case will commence in late August 2021.

BCC Trade Credit and Greensill

IAG clarified on 9 March 2021 that it had no net insurance exposure to trade credit policies sold through BCC Trade Credit Pty Ltd (BCC) to Greensill entities. This position remains unchanged.

Maintain no net insurance exposure to trade credit policies

3. GROUP RESULTS

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IAG sold its 50% interest in BCC on 9 April 2019 to Tokio Marine Management (Australasia) Pty Ltd with the result of eliminating net exposure to trade credit insurance. BCC is an underwriting agency that was authorised to underwrite trade credit insurance on IAG's behalf, in accordance with specific underwriting guidelines, through Insurance Australia Limited (IAL), one of IAG's two licensed insurance subsidiaries in Australia. Trade credit insurance is designed to protect businesses that provide genuine supply chain credit to their customers with a policy that pays the business if the customer defaults on the payment of its accounts receivable.

As part of a transition arrangement after the April 2019 sale of BCC, new policies were underwritten by IAL from the date of sale up to 30 June 2019 and Tokio Marine & Nichido Fire Insurance Co. Ltd (Tokio Marine) retained the risk for these polices, and earlier written policies, net of reinsurance. In addition to reinsurance in place in respect of these policies, IAG entered into agreements with Tokio Marine for it to hold any remaining exposure (after existing reinsurance) to trade credit insurance written by BCC on behalf of IAL.

The IAL trade credit portfolio is in run-off with IAL managing existing and future claims. The existing claims include both claims from policies to Greensill entities and ones related to the remainder of the BCC trade credit portfolio. IAG has recognised an outstanding claims liability of $437m at 30 June 2021 determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. In accordance with IAG's normal practice claims determined to be invalid are not recognised. IAG has also recognised $437m of related reinsurance recoveries in respect of trade credit related claims.

There has been an increasing number of issues raised in the public domain which give rise to other concerns as to the validity, structure and placement of the purported insurances. These are complex issues that are continuing to be investigated by IAG, Tokio Marine and various other stakeholders.

There is a risk that the administrators of Greensill or other claimants may commence litigation to seek legal confirmation of policy coverage and/or validity of claims and there is a risk a reinsurer may challenge its obligations with respect to claim exposures.

Based on various factors, including the determination of policy validity, reinsurance arrangements and the agreements with Tokio Marine, IAG remains confident that for any trade credit claims it may ultimately be liable to pay, it has no net insurance exposure.

Provision for customer refunds

An ongoing proactive review of pricing systems and processes led to a pre-tax provision for customer refunds being raised in FY20 for multi-year pricing issues identified by IAG where discounts to premiums were not always applied in full. A further pre-tax charge of $238m was recorded in FY21, with $163m recognised in 2H21 (1H21: $75m; FY20: $246m).

Ongoing proactive review of pricing systems and processes

IAG has finalised the identification phase of the review and has updated the provision to reflect the latest position of the refund programs and estimated whole of program administration costs. The remediation program will complete over the next 12 to 24 months.

Significant levels of estimation and judgement are required in respect of this provision. An additional charge of $80m has been included in the provision, which has increased the component for uncertainty to $100m, being IAG's best estimate of the downside risk associated with the ongoing work.

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Payroll compliance provision

As previously disclosed as a contingent liability, IAG has been conducting an ongoing payroll compliance review in Australia and Singapore across a number of its payroll-related procedures, to identify where employees may not have received their full entitlements. Remediation payments to current and former employees identified by the review have commenced.

A pre-tax charge of $51m for remediation payments and related costs has been recognised in FY21 in net corporate expense. The overall pre-tax net earnings impact of this provision is ~$56m, with ~$5m relating to current year entitlements and therefore included in FY21 insurance profit.

Recovery from Swann class action

On 6 October 2020 IAG agreed to a settlement of the class action brought against its subsidiaries, Swann Insurance (Aust) Pty Ltd (Swann) and Insurance Australia Limited. A pre-tax charge of $68m was included in net corporate expense in 1H21. Inclusive of all related costs and after insurance recoveries, a post-tax amount of $48m was recognised. Recoveries collected in 2H21 exceeded the original estimate, which has resulted in the pre-tax charge being revised to $40m ($28m post-tax).

Disposal of Dynamiq

Dynamiq, a wholly owned subsidiary involved in global risk management, was sold on 30 April 2021. The overall loss recognised in respect of this transaction was ~$12m, driven predominantly by the derecognition of the associated goodwill balance.

OTHER PROFIT AND LOSS DRIVERS

Net corporate expense

Net corporate expense in FY21 amounted to a pre-tax loss of $1,510m, which is excluded from cash earnings for dividend calculation purposes. There were a number of contributing elements to the overall charge:

- $1,150m to reflect the potential impact of business interruption claims following the NSWCA judgment in November 2020;
- $238m addition to the customer refunds provision, of which $163m was recognised in 2H21;

Unusual items totalling $1,510m pre-tax, principally for business interruption

CUSTOMER REFUNDS PROVISION	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Gross expense	180	110	70	175	290	245
Quota share recovery	(30)	(14)	5	(12)	(44)	(7)
Corporate expense	**150**	**96**	**75**	**163**	**246**	**238**
Income tax	(45)	(29)	(23)	(48)	(74)	(71)
Non-controlling interest	(23)	(8)	2	(3)	(31)	(1)
Net expense	**82**	**59**	**54**	**112**	**141**	**166**

- $51m pre-tax charge for the payroll compliance provision;
- $40m for the October 2020 settlement of the Swann class action, a reduction from the estimated $68m included in 1H21;
- $12m for the overall loss recognised on disposal of Dynamiq; and
- $17m for restructuring costs recognised in 1H21 associated with IAG's exit from the Victorian workers' compensation scheme in FY21.

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The expenses outlined above are discussed under Additional Matters in Group Results except for costs associated with IAG's exit from Victorian workers' compensation which is discussed in the IIA divisional commentary.

Fee-based business

Fee-based business contributed a loss of $29m in FY21, compared to a loss of $23m in FY20. This period's result comprised:

Fee-based loss of $29m with Victoria workers' compensation profit of $7m

- A $7m profit (FY20: $11m profit) from IAG's role as agent under the Victorian workers' compensation scheme;
- A loss of approximately $5m from Motorserve's car servicing activities, which were acquired during FY20 (FY20: $3m loss);
- A ~$30m loss (FY20: $31m loss; 1H21: $17m loss) reflecting investment in new businesses aligned with IAG's strategy and focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives, including:
  - Costs associated with the Safer Journeys crash detection and response service;
  - Customer Loyalty Platform, which is leveraging data and analytics to unify brands, products and services, and deliver better customer experiences with rewards for risk mitigating behaviours and loyalty;
  - Losses from the ongoing development of the Carbar digital car-trading platform business; and
  - Net costs from the Ambiata specialist data activation business and from the innovation hubs run by Firemark Labs in Singapore.

IAG expects a similar-sized pre-tax loss from fee-based income in FY22, after allowing for no further income beyond FY21 from IAG's role as agent under the Victorian workers' compensation scheme (this compares to an approximate $35m loss in FY21).

Asian interests

IAG announced on 19 July 2021 that AmGeneral Holdings Berhad, the Malaysian business in which it holds a 49% interest, had signed an Implementation Agreement for the proposed sale of its wholly-owned insurance business AmGeneral Insurance Berhad (AmGeneral) to Liberty Insurance Berhad and expects to incur a loss. This investment has been classified as 'Held for Sale' and an impairment of approximately $90m has been recognised in amortisation and impairment.

Proposed sale of interest in AmGeneral

The Implementation Agreement sets out the terms on which the parties will seek required regulatory approvals. Subject to receiving these approvals, the parties will execute a Share Purchase Agreement under which IAG will exit its investment in AmGeneral. The transaction is expected to complete during FY22.

IAG continues to weigh up options for its remaining Asian general insurance interests, including divestments where appropriate. The remaining Asian interests are:

- 80.64% in AAA Assurance Corporation in Vietnam; and
- 13.93% in Bohai Property Insurance Company Ltd (Bohai) in China which is included in shareholders' funds investments.

The combined contribution from associates was a profit of $37m (FY20: $59m), largely derived from AmGeneral.

3. GROUP RESULTS

SHARE OF PROFITS FROM ASSOCIATES	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Malaysia	20	22	20	20	42	40
India	16	6	-	-	22	-
Asia support costs	(7)	3	-	-	(4)	-
Other	-	(1)	(2)	(1)	(1)	(3)
Total share of profits from associates	**29**	**30**	**18**	**19**	**59**	**37**

Note: Total share of profit/(loss) from associates is presented on a management results basis. Based on the statutory results, the equivalent statutory total share of profit/(loss) for the current year is $35m (FY20: $57m).

AmGeneral reported GWP of $493m, a 10.5% decrease on FY20 ($551m), while in local currency terms, GWP decreased by around 2%. AmGeneral's FY21 insurance margin of 18.2% increased relative to 14.5% in FY20, resulting in an insurance profit of $83m, ~13% above FY20. This largely reflects improved underwriting profits due to COVID-19 related motor claim frequency benefits (AmGeneral commentary based on 100%; IAG's interest was 49% over the period). IAG received a dividend of $32m from AmGeneral in FY21.

Investment income on shareholders' funds

Investment income on shareholders' funds was a profit of $306m, a marked recovery compared to a loss of $181m in FY20. This was the result of:

- The equity market staging a strong recovery in FY21;
- Positive mark-to-market impacts in alternative asset classes, primarily from higher yielding credit strategies, global convertible bonds and hedge funds; and
- Positive fair value adjustments in the Firemark Ventures portfolio.

Profit on shareholders' funds includes strong market performance

At 30 June 2021, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was 70%, compared to ~75% at the end of FY20.

Tax expense

IAG reported an overall tax credit of $125m in FY21 (FY20: $37m expense), largely due to the recognition of items in net corporate expense which in aggregate amounted to a $1,510m pre-tax loss. Excluding the effect of these items, IAG's effective tax rate (pre-amortisation and impairment) was ~26%.

Normalised effective FY21 tax rate of ~26%

Contributory elements reconciling the FY21 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 increased IAG's losses after tax by $150m, compared to a reduction in profits after tax of $59m in FY20.

Non-controlling interests reflect significantly higher IMA earnings

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 DIA. IMA posted a much higher profit in FY21 owing to:

- A significant reduction compared to FY20 in the number and size of major peril events in NSW and Victoria, notwithstanding natural perils still exceeding allowances in FY21;

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- Its share of the provision for customer refunds during FY21 of $1m being lower than $31m in FY20, as the bulk of the identification of IMA related matters occurred in FY20; partly offset by
- Reduced COVID-19 related motor claim frequency benefits in 1H21 compared to 2H20.

Amortisation and impairment

As previously discussed, IAG's interest in AmGeneral has been classified as 'Held for Sale' and an impairment of approximately $90m has been recognised in amortisation and impairment.

FY21 amortisation and impairment ($111m) also included the write-down of intangibles associated with IAG's exit from the Victorian workers' compensation scheme (~$15m). The current remaining balance of acquired intangibles is small and expected to be largely amortised by the end of the next financial year.

NET PROFIT/(LOSS) AFTER TAX AND CASH EARNINGS PER SHARE

A net loss after tax of $427m compared to a profit of $435m in FY20 reflected the aforementioned items.

Diluted cash earnings per share (EPS) in FY21 was 28.51 cents per share (cps), significantly higher than 12.12 cps in FY20. Basic EPS in FY21 was (17.82) cps, compared with 18.87 cps in FY20, and on a diluted basis was (17.82) cps (FY20: 18.49cps).

Significant increase in diluted cash EPS to 28.51 cents

Basic EPS was calculated on higher weighted average shares on issue (excluding treasury shares and dilutionary issues) of 2,395.6m shares (FY20: 2,304.7m), reflecting the shares issued as part of the Institutional Placement and Share Purchase Plan. Diluted cash EPS was based on 2,775.6m shares (FY20: 2,514.9m shares) after allowance for potential equity issuance from hybrid and debt conversion.

ORDINARY ISSUED CAPITAL	Shares (m)
Balance at the beginning of the financial year	2,311.0
Institutional Placement - November 2020	128.7
Share Purchase Plan - December 2020	25.3
Balance at the end of the financial year	**2,465.0**
Average weighted shares on issue	2,400.2
Less: Treasury shares held in trust	(4.6)
Average weighted shares on issue - cash EPS	**2,395.6**
Add: Treasury shares held in trust	4.6
Add: Potential dilutionary issues from hybrid debt instruments	375.4
Average weighted potential shares on issue - diluted cash EPS[1]	**2,775.6**

Note: (1) Average weighted potential shares on issue – diluted cash EPS represent non-IFRS financial information.

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

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

3. GROUP RESULTS

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CASH EARNINGS	FY21 A$m
Net profit/(loss) after tax	**(427)**
Acquired intangible amortisation and impairment	111
Unusual items:	
- Business interruption provision	1,150
- Customer refund provision	238
- Payroll compliance provision	51
- Swann class action	40
- Other	31
- Tax effect on net corporate expense	(450)
Corporate expenses net of tax	1,060
- Non-controlling interest in net corporate expense	(5)
- Vietnam Impairment (Discontinued Operations)	8
Cash earnings	**747**
Dividend payable	**493**
Cash payout ratio	**66.0%**

Notes: (1) Includes Australian income tax benefits in relation to the corporate expense items listed above. (2) Cash earnings and cash payout ratio represent non-IFRS financial information.

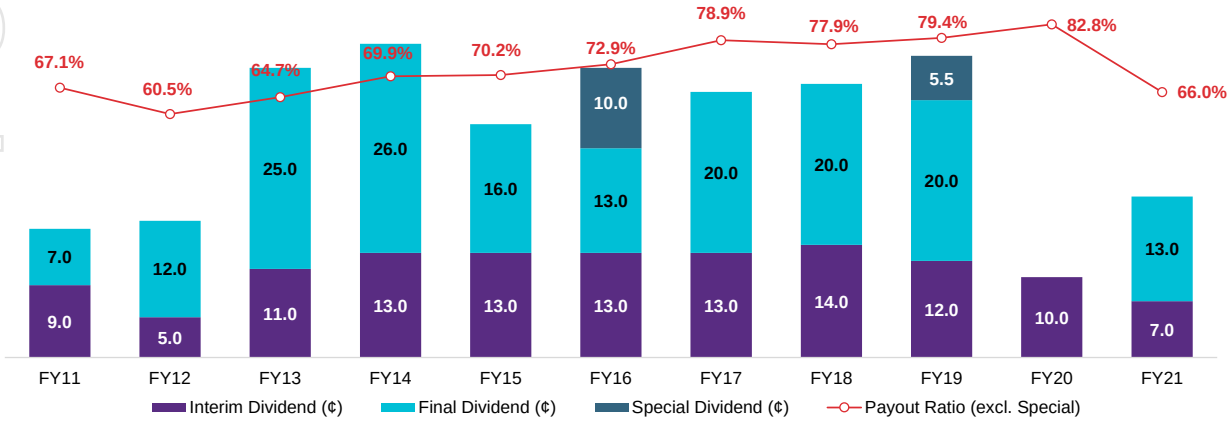
DIVIDEND

The Board has determined to pay a final dividend of 13.0 cents per share, with no franking. No final dividend was paid in FY20. The final dividend is payable on 22 September 2021 to shareholders registered as at 5pm Australian Eastern Standard Time (AEST) on 18 August 2021.

This brings the full year dividend to 20.0 cents per share, which equates to a payout ratio of 66.0% of cash earnings, in line with IAG's stated dividend policy to distribute 60-80% of cash earnings in any full financial year.

Final dividend of 13 cents – takes pay-out ratio to 66.0% of FY21 cash earnings

DIVIDEND HISTORY – FY11-FY21



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3. GROUP RESULTS

As at 30 June 2021, IAG had a nil franking balance.

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 and FY21 which was influenced by severe net natural peril claim costs and adverse reserving, including the business interruption provision in FY21. This will impact IAG's capacity to frank eligible distributions over the medium term.

As a result, IAG expects no franking will apply to any ordinary dividends that it may declare and pay during calendar 2021, and zero franking will also apply to relevant distributions on the Capital Notes in the period to 31 December 2021.

The dividend reinvestment plan (DRP) will operate for the final dividend for DRP-registered shareholders as at 5pm AEST on 19 August 2021. The issue price per share will be the Average Market Price as defined in the DRP terms, with no discount for participants. Shares allocated under the DRP are likely to be purchased on-market. Information about IAG's DRP is available at http://www.iag.com.au/shareholder-centre/dividends/reinvestment.

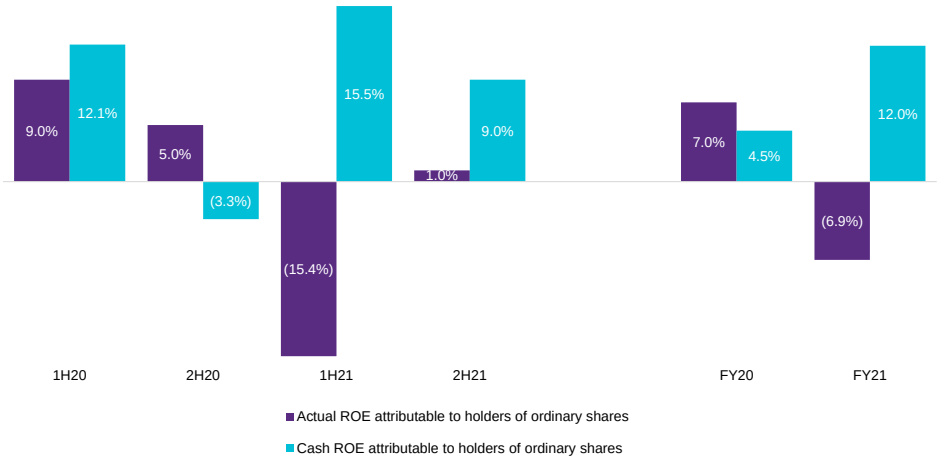
RETURN ON EQUITY

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/(loss) after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identified intangibles and unusual items.

Cash ROE of 12.0%

IAG's current long-term cost of capital is approximately 8%, equating to a cash ROE target of approximately 12-13%. In FY21, IAG reported a cash ROE of 12.0% (FY20: 4.5%).

RETURN ON EQUITY (ANNUALISED)



Note: Cash ROE represents non-IFRS financial information.

CAPITAL

IAG has retained a strong capital position in FY21, supported by the $776m equity capital raise in November and December 2020. At 30 June 2021 IAG's CET1 ratio was 1.06, and 0.93 after allowance for payment of the final dividend, against a target benchmark of 0.9-1.1.

CET1 ratio of 1.06 within target range

3. GROUP RESULTS

The sale of AmGeneral is expected to result in an increase in IAG's regulatory capital position of approximately $150m on completion, a ~0.06 improvement in the CET1 ratio. This is expected to occur in the financial year ending 30 June 2022.

IAG's debt to total tangible capitalisation ratio at 30 June 2021 was 37.3%, towards the midpoint of its targeted 30-40% range. This follows the $450m subordinated debt issue on 24 August 2020.

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

IAG's probability of adequacy for the outstanding claims liability remained 90% at 30 June 2021.

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3. GROUP RESULTS

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FY22 GUIDANCE AND OUTLOOK

IAG is reintroducing guidance given the sound underlying financial performance in FY21, the new operating model now embedded with new executive responsibilities and less uncertainty in the economic outlook compared to August 2020. Guidance for FY22 includes the following:

- GWP guidance for 'low single-digit' growth in FY22. This incorporates the combined effect of:
  - Modest growth in customer numbers and ongoing rate increases in short tail personal lines in DIA;
  - Continued rate increases across commercial lines in IIA and a focus on portfolio management, which is expected to constrain volume growth; and
  - Largely rate-driven increases in New Zealand.
- Reported insurance margin guidance of 13.5 – 15.5%. Assumptions supporting this include:
  - An improvement in the underlying margin on a like-for-like basis, after adjusting for the favourable net impact of COVID-19 benefits in FY21;
  - No material positive or negative effects from COVID-19 in FY22 (to be revaluated as the impact of the July and August 2021 lockdowns across Australia becomes clearer);
  - The earn through impact of targeted rate increases in FY21, particularly in IIA where underlying profitability is expected to continue recovering;
  - Non-recurrence of the additional expenses associated with IAG's new operating model and property consolidation costs in New Zealand in 2H21;
  - An increase in the natural perils allowance to $765m (post-quota share) reflecting underlying exposure growth. This has increased from $658m in FY21 which benefitted from additional reinsurance cover provided by the calendar year 2020 aggregate catastrophe cover ($1,133m up from $975m pre-quota share);
  - No allowance for prior period reserve releases or strengthening; and
  - No material movement in foreign exchange rates or investment markets.

FY22 guidance aligns to IAG's aspirational goal to achieve a 15-17% insurance margin over the medium term. This goal encompasses organic direct customer growth that at least matches the market in DIA and New Zealand, an insurance profit of at least $250m[1] over the next three to five years for IIA and delivering further simplification and efficiencies in the cost structure of the company over the next three years.

Note (1) IIA's goal is based on the combination of the flow through of operational efficiencies, lower loss ratios driven by a portfolio led improvement plan and the earn through impact of targeted rate increases. The long-tail deterioration experienced in FY21 is expected to improve from FY22 onwards through rate and other initiatives.

IAG expects underlying margin improvement in FY22 on a like-for-like basis

4. DIRECT INSURANCE AUSTRALIA

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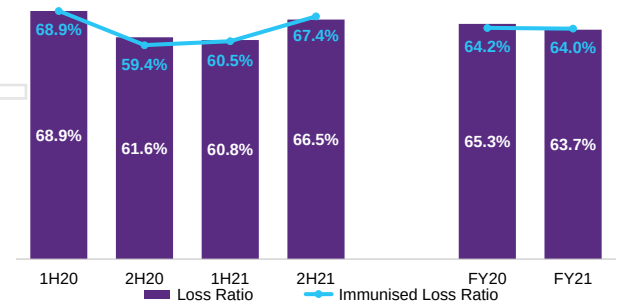
FINANCIAL PERFORMANCE

DIRECT INSURANCE AUSTRALIA	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Gross written premium	**2,751**	**2,782**	**2,857**	**2,915**	**5,533**	**5,772**
Gross earned premium	2,751	2,740	2,821	2,837	5,491	5,658
Reinsurance expense	(1,061)	(1,083)	(1,102)	(1,089)	(2,144)	(2,191)
Net earned premium	**1,690**	**1,657**	**1,719**	**1,748**	**3,347**	**3,467**
Net claims expense	(1,165)	(1,020)	(1,046)	(1,162)	(2,185)	(2,208)
Commission expense	(51)	(49)	(51)	(51)	(100)	(102)
Underwriting expense	(232)	(273)	(257)	(266)	(505)	(523)
Underwriting profit	**242**	**315**	**365**	**269**	**557**	**634**
Investment income on technical reserves	43	27	56	28	70	84
Insurance profit	**285**	**342**	**421**	**297**	**627**	**718**
Profit/(loss) from fee based business	(2)	(14)	(9)	(6)	(16)	(15)
Share of profit/(loss) from associates	-	(1)	(1)	(2)	(1)	(3)
Total divisional result	**283**	**327**	**411**	**289**	**610**	**700**

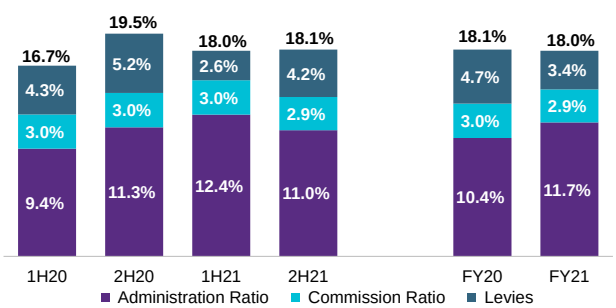
Insurance Ratios	1H20	2H20	1H21	2H21	FY20	FY21
Loss ratio	68.9%	61.6%	60.8%	66.5%	65.3%	63.7%
Immunised loss ratio	68.9%	59.4%	60.5%	67.4%	64.2%	64.0%
Expense ratio	16.7%	19.5%	18.0%	18.1%	18.1%	18.0%
Commission ratio	3.0%	3.0%	3.0%	2.9%	3.0%	2.9%
Administration ratio	13.7%	16.5%	15.0%	15.2%	15.1%	15.1%
Combined ratio	85.6%	81.1%	78.8%	84.6%	83.4%	81.7%
Immunised combined ratio	85.6%	78.9%	78.5%	85.5%	82.3%	82.0%
Reported insurance margin	16.9%	20.6%	24.5%	17.0%	18.7%	20.7%
Underlying insurance margin	23.0%	29.4%	23.2%	19.8%	26.1%	21.4%

INSURANCE RATIOS

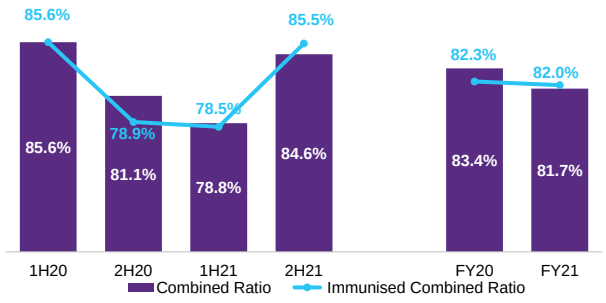
LOSS RATIO



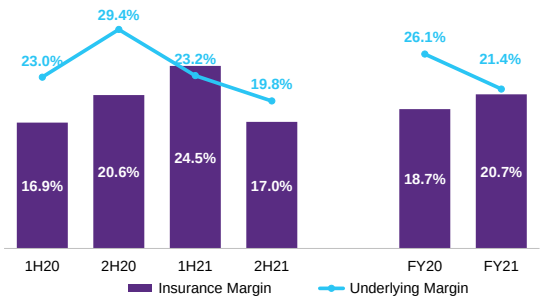
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



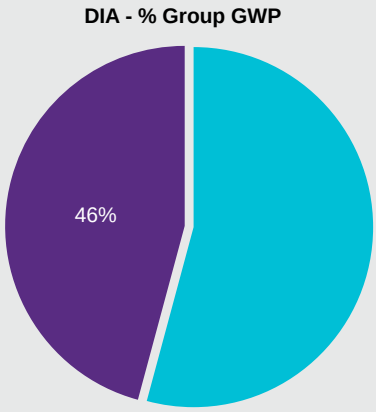
4. DIRECT INSURANCE AUSTRALIA

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EXECUTIVE SUMMARY

Direct Insurance Australia (DIA) snapshot

- DIA is the largest division in IAG and plays an integral role in delivering on the strategy to 'Grow with our customers' through increasing customer reach and delivering personalised, digitally-enabled services
- DIA holds the largest market share in direct personal insurance in Australia, with products sold under multiple leading brands including NRMA Insurance, RACV, CGU, SGIO and SGIC
- DIA also provides insurance to SME on a direct basis, a significant growth opportunity
- DIA has consistently produced strong financial returns, reinforcing the strength and resilience of the franchise



FY21 Performance

- Customers served grew ~1.2 % to ~4.8 million
- DIA provided ~8.6 million policies
- GWP grew 4.3% through a combination of rate increases and volume growth, with a stronger 2H21performance from motor
- 2H21 GWP growth was 4.8%
- Net COVID-19 impacts, all realised in the first half and predominantly from lower motor claims frequency, had a favourable overall effect on FY21 margins
- Excluding COVID-19 benefits, underlying margins remained strong at ~20% across FY21
- Reported margins of 20.7% compared to 18.7% in FY20 largely due to lower natural perils costs

PREMIUMS

DIA reported GWP of $5,772m in FY21, an increase of 4.3% over FY20. GWP growth momentum evident in 1H21 (+3.9%) continued in 2H21, with growth of 4.8% achieved. Growth was driven by both volumes and higher rates across personal short-tail classes, that broadly matched claims inflation. Volume growth exceeded 1% across DIA supported by increased retention and new business growth, with particularly strong outcomes across the RACV, commercial and CTP SA portfolios.

DIRECT INSURANCE AUSTRALIA GWP	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m	GWP Growth 1H21 vs 1H20	GWP Growth 2H21 vs 2H20	GWP Growth FY21 vs FY20
Motor	1,335	1,371	1,369	1,434	2,706	2,803	2.5%	4.6%	3.6%
Home	899	880	949	931	1,779	1,880	5.6%	5.8%	5.7%
Niche & Other	52	51	57	56	103	113	9.6%	9.8%	9.7%
Personal Short Tail	**2,286**	**2,302**	**2,375**	**2,421**	**4,588**	**4,796**	**3.9%**	**5.2%**	**4.5%**
CTP	364	375	377	379	739	756	3.6%	1.1%	2.3%
Total Personal	**2,650**	**2,677**	**2,752**	**2,800**	**5,327**	**5,552**	**3.8%**	**4.6%**	**4.2%**
Commercial	101	105	105	115	206	220	4.0%	9.5%	6.8%
Total GWP	**2,751**	**2,782**	**2,857**	**2,915**	**5,533**	**5,772**	**3.9%**	**4.8%**	**4.3%**

4. DIRECT INSURANCE AUSTRALIA

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Personal short tail

Personal short tail GWP growth was 4.5% compared to FY20, driven primarily by rate increases. 2H21 GWP growth picked up to 5.2% from 3.9% in 1H21.

Motor GWP increased 3.6% relative to FY20 (2H21: 4.6%). This was driven by average rate increases that reflected claims inflation trends, supplemented by growth in overall customer numbers, with a resultant volume uplift of approximately 0.7% over FY21.

Key drivers of motor volume growth comprised:

- Solid growth in Victoria and Queensland as economic activity recovered after lockdowns;
- Customer support campaigns in NSW; and
- Some volume reduction in WA and SA.

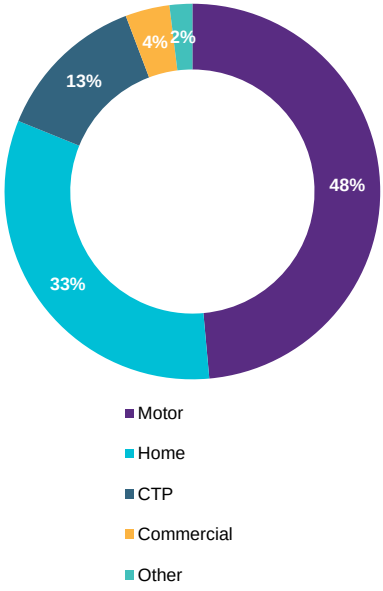
Home GWP rose by 5.7% (2H21: 5.8%), primarily derived from rate increases, with overall volumes modestly lower. This outcome reflected:

- Mid single-digit average rate increases, which largely met claims inflation and the requirement to price for increasing natural peril allowances;
- Higher ESL collection which added approximately 1% to growth; and
- Slightly lower volumes, mainly in NSW, WA and QLD, partly offset by volume growth in Victoria.

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

GWP from niche and other short tail lines, comprising boat, caravan and veteran & classic cars, was around 10% higher than FY20. This comprised both rate and volume growth.

DIA FY21 GWP – BY CLASS

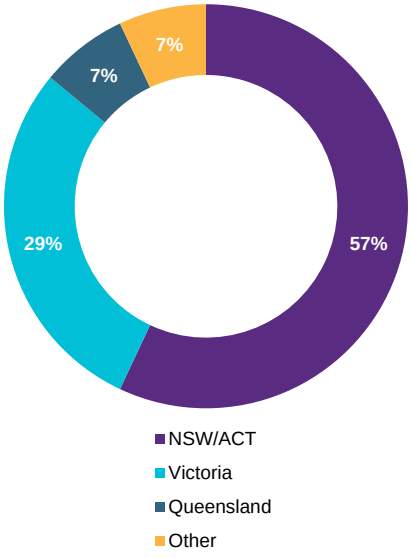


Personal long tail

Long tail (CTP) GWP grew by 2.3% and reflected:

- Increased volume in SA, benefiting from IAG's market leading claims service rating. IAG's market share grew to ~38%, up from ~31% in FY20;
- A ~3% decline in NSW GWP, due to the flow through of price reductions in March and July 2020, partially offset by modest volume gains. IAG's share of NSW CTP registrations (on a 12-month rolling average GWP basis) has remained broadly stable at 31.6% (2H20: 31.9%); and
- A more than 20% decrease in ACT GWP, with lower prices due to scheme reform effective 1 February 2020, as well as volume loss. IAG's share of ACT CTP registrations (on a 12-month rolling average basis) was 51% and has reduced from 58% in 2H20.

DIA FY21 SHORT TAIL GWP – STATE/TERRITORY



Direct commercial

Business packages are the main products sold through IAG's direct commercial channel, and this portfolio achieved GWP growth of 6.8%, which reflected robust volume growth as the Australian economy recovered from the initial impact of COVID-19. Growth was supported by digital and product enhancements. Direct distribution to SME will be an area of focus for potential future growth.

4. DIRECT INSURANCE AUSTRALIA

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Customer Initiatives

DIA continues to enhance its product offerings, strengthen partnerships and improve the overall customer experience. Over the past year, highlights have included:

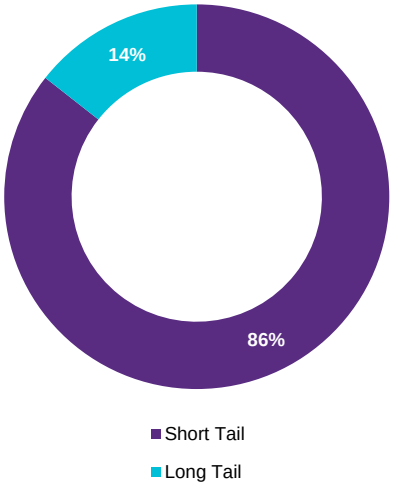
- The launch of a new policy administration platform and related customer service proposition, with the first phase going live in February 2021 in Western Australia. This platform enables a new sales and service capability that will support customers across every step of their journey with IAG;
- The launch of a Document Management System that automates correspondence and introduces real time distribution to elevate the customer experience;
- Progress on changes to policy wordings and processes to ensure compliance with initiatives designed to enhance customer outcomes including the General Insurance Code of Practice (GICOP), Product Design & Distribution Obligations and the Unfair Contract Terms Act;
- The sourcing and replacement of motor vehicles (less than two years old) for total loss customers by Carbar (an IAG subsidiary acquired in July 2019). This has improved both the efficiency and effectiveness of the vehicle replacement process. Opportunities to partner with Carbar to provide customer mobility services are also being explored;
- Establishing Home Trades Hub Australia (HTHA) in August 2020 as a joint venture with RACV, to deliver home services to IAG and RACV customers nationally. HTHA leverages a network of qualified tradespeople and professionals, to offer a single point of delivery for a range of home repair, maintenance and security services;
- Car servicing and customer hub operations continuing through Motorserve (acquired February 2020). Car servicing operates across 19 sites and provides quality mechanical services to ~80,000 customers. Customer hubs provide a one-stop shop for services including vehicle assessment, repair, servicing and onsite mobility options. Motorserve currently operates 15 customer hubs and is planning to double this footprint in FY22; and
- Growth and improvement in the consistency and quality of repairs through Repairhub, a majority-owned joint venture with RACV and two repair partners. Repairhub contributed to improved customer experience by reducing cycle times, ensuring customers get their cars back more quickly. It also helps to capture economies of scale around motor parts procurement. Repairhub currently manages 13 sites in metropolitan centres, with plans for a further 7 sites in FY22.

Digital Initiatives

Investment in digital initiatives is an ongoing priority for DIA and notable developments in 2H21 included:

- Continued online sales channel growth, with NRMA now conducting ~37% of new business sales and renewals online;
- Marketing initiatives for NRMA SME Direct across different channels, including optimisation of paid search, resulting in a ~25% increase in new business;

DIA FY21 GWP - TAIL



A range of customer and digital initiatives focussed on further enhancing the customer experience

4. DIRECT INSURANCE AUSTRALIA

- Continued investment in personalised digital customer journeys including an enhanced Digital Expert Advice (Robo Advice) tool for small businesses, expected to be launched in FY22;
- A redesigned motor total loss claims experience which has resulted in a significant reduction in the claims settlement process; and
- More than 400,000 automated SMSs have been sent to our customers, helping keep them better informed throughout the motor and home repair process.

INSURANCE PROFIT

DIA reported an insurance profit of $718m in FY21, compared to $627m in FY20, which equates to a higher reported insurance margin of 20.7%, compared to 18.7% in FY20. This reflected the net effect of a lower underlying margin in FY21, significantly lower natural peril experience in FY21 and credit spread gains in FY21 compared to losses in FY20.

Improvement in reported profitability

INSURANCE MARGIN IMPACTS Direct Insurance Australia	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Underlying insurance profit	**388**	**487**	**398**	**347**	**875**	**745**
Reserve releases/(strengthening)	(12)	32	1	1	20	2
Reserve release assumption	(17)	(16)	-	-	(33)	-
Natural perils	(226)	(280)	(153)	(215)	(506)	(368)
Natural peril allowance	148	150	145	145	298	290
Credit spreads	4	(31)	30	19	(27)	49
Reported insurance profit	**285**	**342**	**421**	**297**	**627**	**718**
Underlying insurance margin	**23.0%**	**29.4%**	**23.2%**	**19.8%**	**26.1%**	**21.4%**
Reserve releases/(strengthening)	(0.7%)	1.9%	0.1%	0.1%	0.6%	0.1%
Reserve release assumption	(1.0%)	(1.0%)	-	-	(1.0%)	-
Natural perils	(13.4%)	(16.9%)	(8.9%)	(12.3%)	(15.1%)	(10.6%)
Natural peril allowance	8.8%	9.1%	8.4%	8.3%	8.9%	8.4%
Credit spreads	0.2%	(1.9%)	1.7%	1.1%	(0.8%)	1.4%
Reported insurance margin	**16.9%**	**20.6%**	**24.5%**	**17.0%**	**18.7%**	**20.7%**

DIA's underlying margin of 21.4% in FY21 was lower than the prior year (FY20: 26.1%), with 2H21's 19.8% underlying margin also softer than 23.2% in 1H21. Three key elements have driven the difference, which are outlined in greater detail in the Group Results section. These include:

Excluding COVID-19 benefits, underlying margins remained strong at ~20% across FY21

- Underlying margins in FY20 assumed a normalised level of reserve releases of 1% of NEP, in line with IAG's definition of underlying margins at the time, whereas no normalised releases are assumed from 1H21;
- 1H21 included a net COVID-19 benefit of around $60-$70m (~1.9% of FY21 NEP), predominantly from reduced motor claims frequency; and
- 2H20 included a net COVID-19 benefit of around $100m (~3% of FY20 NEP), for similar reasons.

If the impact of the items above is excluded, the underlying margin was around 20.0% in FY21, which is approximately 200 bps below the equivalent metric for FY20. On this basis, key drivers of the year-on-year movement included:

- A greater than 100bp increase in the administration expense ratio (ex levies). This increase reflects the combined impact of:

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  - Increased technology, compliance, governance and corporate insurance spend; and
  - Costs associated with the transition to the new operating model (non-recurring).
- Reduction in the running yield on investments reflecting the lower interest rate environment.

The main drivers of DIA's underlying and reported insurance profit are discussed in more detail below.

Underlying Claims Experience

DIA's underlying claims ratio (excluding reserve movements, natural perils and discount rate adjustments) was 53.5% in FY21, higher than the equivalent metric of 49.7% in the prior year.

IMMUNISED LOSS RATIO Direct Insurance Australia	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Immunised underlying net claims expense	**926**	**737**	**888**	**965**	**1,663**	**1,853**
Discount rate adjustment	1	35	6	(17)	36	(11)
Reserving and perils effects	238	248	152	214	486	366
Reported net claims expense	**1,165**	**1,020**	**1,046**	**1,162**	**2,185**	**2,208**
Immunised underlying loss ratio	**54.8%**	**44.4%**	**51.7%**	**55.2%**	**49.7%**	**53.5%**
Discount rate adjustment	-	2.2%	0.3%	(0.9%)	1.1%	(0.3%)
Reserving and perils effects	14.1%	15.0%	8.8%	12.2%	14.5%	10.5%
Reported loss ratio	**68.9%**	**61.6%**	**60.8%**	**66.5%**	**65.3%**	**63.7%**

This reflects the net effect of a few key factors:

- A lower contribution from the COVID-19 related motor claims frequency benefit;
- Some upward pressure on average motor claim costs, particularly in Victoria during 2H21, due to the need to support partner repairers through the implications of COVID-19 related volume declines; and
- Some modest inflation related to the cost and mix of replacement motor parts.

Some upward pressure on claims evident

On the positive side, the underlying loss ratio benefited from:

- The impact of higher premium rates; and
- Lower average home claim costs driven by operational improvements related to a new performance framework for building partners rolled out in FY21 and early detection of water claims, which is likely due to more customers working from home.

IAG has continued to counter underlying claim inflation pressures through the application of higher premium rates. This has been conducted in conjunction with claims initiatives that have seen improvements in customer and quality outcomes and increased use of the supply chain model across all brands.

Reserve Releases / Strengthening

In contrast to FY20 where some positive CTP reserve development on older accident years emerged ($20m reserve releases), negligible overall releases were reported in FY21. This outcome aligns with the refined underlying margin definition that has been adopted from FY21.

Negligible prior period reserve movement

4. DIRECT INSURANCE AUSTRALIA

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Natural Perils

Natural peril costs (net of reinsurance) for FY21 totalled $368m, which was $78m higher than the related allowance. Losses included storm and hail events that affected NSW/QLD in October 2020, the NSW/QLD floods in late March 2021 and Victoria flooding in June 2021.

A detailed list of significant natural peril events, and related costs, is available in the Group Result section.

Expenses

Expenses grew from $605m in FY20 to $625m in FY21. This reflects:

- Increased technology, compliance, governance and corporate insurance spend;
- Costs associated with the transition to the new operating model; partly offset by
- Non-recurrence of certain additional costs incurred as a result of COVID-19 in 2H20, particularly in supporting employees to 'work from home'.

Ongoing investment and costs associated with new operating model

FEE-BASED INCOME & SHARE OF LOSS FROM ASSOCIATES

Fee-based business in DIA will in future comprise contributions from two main sources:

- Investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives; and
- The car servicing operations of Motorserve, an acquisition that was completed during 2H20.

The FY21 overall fee-based result was a loss of $15m (FY20: $16m loss; 2H21: $6m loss) which was in line with expectations given the stage of development of these businesses. This included:

- A loss of ~$5m from Motorserve's car servicing activities, due to continued COVID-19 related volume challenges; and
- Net costs associated with digital initiatives of around $10m.

The $3m loss from associates predominantly relates to HTHA's establishment costs, integration of various businesses and investments in technology.

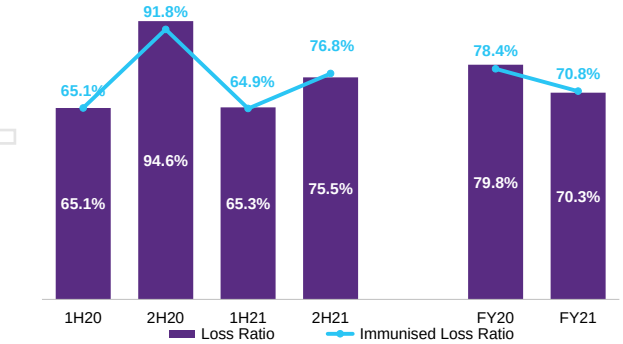
5. INTERMEDIATED INSURANCE AUSTRALIA

INTERMEDIATED INSURANCE AUSTRALIA	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Gross written premium	**1,857**	**1,977**	**1,962**	**2,086**	**3,834**	**4,048**
Gross earned premium	1,988	1,937	2,002	1,947	3,925	3,949
Reinsurance expense	(798)	(752)	(796)	(756)	(1,550)	(1,552)
Net earned premium	**1,190**	**1,185**	**1,206**	**1,191**	**2,375**	**2,397**
Net claims expense	(775)	(1,121)	(787)	(899)	(1,896)	(1,686)
Commission expense	(194)	(193)	(191)	(196)	(387)	(387)
Underwriting expense	(188)	(167)	(183)	(201)	(355)	(384)
Underwriting profit/(loss)	**33**	**(296)**	**45**	**(105)**	**(263)**	**(60)**
Investment income on technical reserves	31	25	39	11	56	50
Insurance profit/(loss)	**64**	**(271)**	**84**	**(94)**	**(207)**	**(10)**
Profit/(loss) from fee based business	8	(3)	4	-	5	4
Share of profit/(loss) from associates	-	-	-	-	-	-
Total divisional result	**72**	**(274)**	**88**	**(94)**	**(202)**	**(6)**

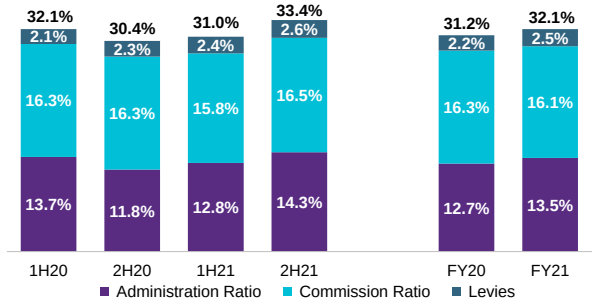
Insurance Ratios	1H20	2H20	1H21	2H21	FY20	FY21
Loss ratio	65.1%	94.6%	65.3%	75.5%	79.8%	70.3%
Immunised loss ratio	65.1%	91.8%	64.9%	76.8%	78.4%	70.8%
Expense ratio	32.1%	30.4%	31.0%	33.4%	31.2%	32.1%
Commission ratio	16.3%	16.3%	15.8%	16.5%	16.3%	16.1%
Administration ratio	15.8%	14.1%	15.2%	16.9%	14.9%	16.0%
Combined ratio	97.2%	125.0%	96.3%	108.9%	111.0%	102.4%
Immunised combined ratio	97.2%	122.2%	95.9%	110.2%	109.6%	102.9%
Reported insurance margin	5.4%	(22.9%)	7.0%	(7.9%)	(8.7%)	(0.4%)
Underlying insurance margin	6.3%	(7.8%)	3.8%	3.9%	(0.7%)	3.9%

INSURANCE RATIOS

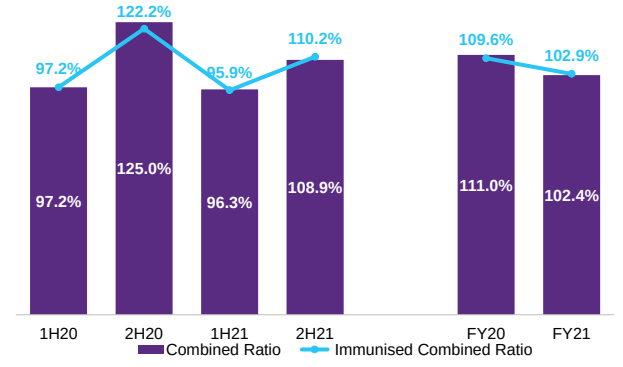
LOSS RATIO



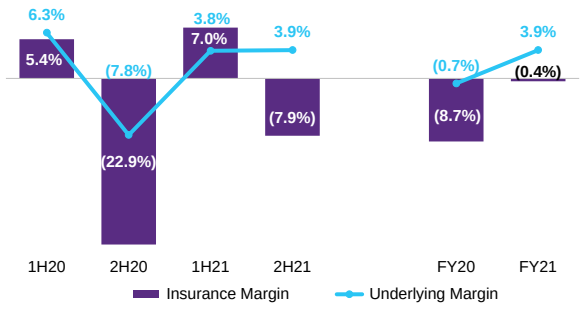
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



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5. INTERMEDIATED INSURANCE AUSTRALIA

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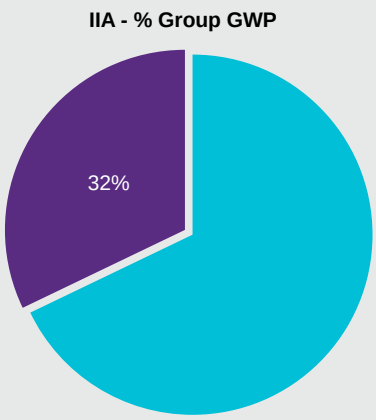
EXECUTIVE SUMMARY

Intermediated Insurance Australia (IIA) snapshot

- IIA is a leading provider of general insurance products sold through a network of intermediaries to businesses and individuals across Australia
- Commercial insurance is sold under the CGU and WFI brands, with a significant share of the SME market and a leading presence in rural areas
- IIA also provides personal insurance primarily through broker and partner channels, including brands such as Coles and a number of affinity and financial institution partnerships
- Improving the level and consistency of IIA's profitability is a key element of IAG's strategy to "Build better businesses"

FY21 Performance

- 5.6% GWP growth, with high single-digit growth achieved across commercial lines
- Rate increases remain the dominant growth driver and averaged around 8% over FY21
- Excluding COVID-19 effects and 1% normalised reserve release assumption in the prior year, underlying margins improved in FY21 to around 4%
- Prior year reserve deterioration of $119m primarily across commercial long-tail classes in FY21
- Reported insurance loss of $10m represents a significant improvement on the prior year (FY20: a loss of $207m)



PREMIUMS

IIA reported GWP of $4,048m in FY21, an increase of 5.6% compared to FY20. Growth of 5.7% was achieved in 1H21 and 5.5% in 2H21. Rate increases remained a dominant feature across IIA and averaged around 8% over FY21. Retention rates remained stable at high levels, a contrast to pressure on volumes experienced in recent years.

INTERMEDIATED INSURANCE AUSTRALIA GWP	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m	GWP Growth 1H21 vs 1H20	GWP Growth 2H21 vs 2H20	GWP Growth FY21 vs FY20
Commercial Short Tail	889	895	940	957	1,784	1,897	5.7%	6.9%	6.3%
Commercial Long Tail	373	426	407	479	799	886	9.1%	12.4%	10.9%
Personal	595	656	615	650	1,251	1,265	3.4%	(0.9%)	1.1%
Total GWP	**1,857**	**1,977**	**1,962**	**2,086**	**3,834**	**4,048**	**5.7%**	**5.5%**	**5.6%**

Commercial Short Tail

Commercial Short Tail GWP grew by 6.3% in FY21 (a relatively similar growth rate across halves) and reflected:

- Rate movements that continued to vary by segment. Many SME products achieved mid single-digit rate increases. CGU speciality lines such as property, construction and engineering and WFI achieved double-digit average rate increases;
- Volume reductions due to a competitive market for Business packaged products and ongoing remediation activity across certain rural portfolios;
- An improvement in crop insurance volumes compared to FY20, following the easing of drought conditions in NSW and Queensland; and

Ongoing rate-driven premium growth

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5. INTERMEDIATED INSURANCE AUSTRALIA

- Underwriting agencies delivering low double-digit GWP growth compared to FY20. This was driven by the continued strong performance of the NTI heavy haulage business and rate-driven growth in Strata.

Commercial Long Tail

Commercial Long Tail GWP grew by 10.9%, with the growth rate picking up from 9.1% in 1H21 to 12.4% in 2H21.This reflected:

- Double-digit rate increases across professional risk and liability portfolios to address adverse claims inflation with workers' compensation achieving mid single-digit increases; and
- Workers' compensation GWP increasing by low double-digits primarily reflecting higher multi-year policy volumes in FY21 and focused portfolio pricing activity in the WA, ACT and Tasmanian schemes.

Personal

IIA's personal brands include Coles, CGU, IAL Steadfast and WFI sold via brokers and other partners. GWP in FY21 was relatively flat on FY20, reflecting the combined impact of:

- High single-digit rate increases achieved across brokered lines and IAL Steadfast, while other partner channels achieved mid single-digit rate increases; and
- Volume loss in IAL Steadfast and Coles owing to the impact of increasing rates, partly offset by growth in brokered lines.

Customer and Digital Initiatives

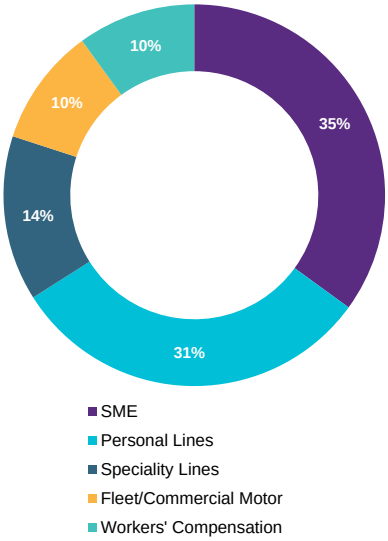
IIA continues to enhance its product offerings, strengthen partnerships and improve the quality of its customer service. In FY21 this included:

- The extension of initiatives to offer support to customers suffering hardship as a result of COVID-19, which now form the fundamentals of our hardship program;
- Improvements to comply with GICOP 2020. IAG assisted over 2,000 customers under the "Supporting Vulnerable Customers" and "Financial Hardship" provisions, effective 1 January 2021;
- Rolling out "CGU Edge", CGU's new broker communication newsletter, which provides brokers with relevant content on product, regulatory and marketing changes;
- Commencement of a bi-annual "Broker Pulse Survey" in May 2021; and
- Continuation of the "CGU Business as Unusual" speaker series, which commenced in March 2020.

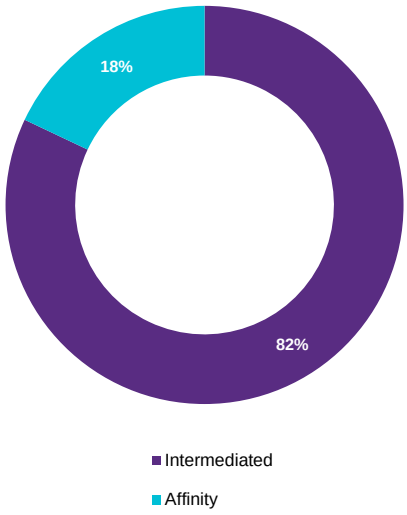
Investment in digital initiatives will remain an ongoing priority for IIA. Over the past year activities included:

- Renewing the "OneAffiniti" digital agency (launched in April 2020), a CGU initiative that allows participating broker partners access to tailored digital marketing and expertise to optimise client engagement;
- The launch of "AMPLIFY", a technology solution that allows brokers to share pre-approved CGU social media content;
- Continued focus on simplifying and improving digital broker and partner platform enablement; and
- The implementation of a digital workflow management solution within CGU to simplify ways of working and uplift productivity and operational efficiencies.

IIA FY21 GWP – CLASS



IIA FY21 GWP – CHANNEL



5. INTERMEDIATED INSURANCE AUSTRALIA

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INSURANCE PROFIT

IIA reported an insurance loss of $10m in FY21, which was a significant improvement relative to a $207m loss in the prior year. Reserve strengthening on long tail commercial classes has been a feature across both years. The prior year was also impacted by the combined effect of natural perils costs well above allowances and a provision for potential COVID-19 claims recognised in 2H20.

Reported insurance result improved significantly

INSURANCE MARGIN IMPACTS Intermediated Insurance Australia	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Underlying insurance profit	**75**	**(92)**	**46**	**47**	**(17)**	**93**
Reserve releases/(strengthening)	5	(89)	(34)	(85)	(84)	(119)
Reserve release assumption	(12)	(12)	-	-	(24)	-
Natural perils	(136)	(184)	(86)	(200)	(320)	(286)
Natural peril allowance	129	128	137	137	257	274
Credit spreads	3	(22)	21	7	(19)	28
Reported insurance profit	**64**	**(271)**	**84**	**(94)**	**(207)**	**(10)**
Underlying insurance margin	**6.3%**	**(7.8%)**	**3.8%**	**3.9%**	**(0.7%)**	**3.9%**
Reserve releases/(strengthening)	0.4%	(7.5%)	(2.8%)	(7.1%)	(3.5%)	(5.0%)
Reserve release assumption	(1.0%)	(1.0%)	-	-	(1.0%)	-
Natural perils	(11.4%)	(15.5%)	(7.1%)	(16.8%)	(13.5%)	(11.9%)
Natural peril allowance	10.8%	10.8%	11.4%	11.5%	10.8%	11.4%
Credit spreads	0.3%	(1.9%)	1.7%	0.6%	(0.8%)	1.2%
Reported insurance margin	**5.4%**	**(22.9%)**	**7.0%**	**(7.9%)**	**(8.7%)**	**(0.4%)**

IIA's underlying margin in 2H20 was adversely impacted by COVID-19 effects (~$100m). Further, the underlying margin definition for the prior year included a 1% normalised reserve release assumption, which is no longer being applied. More detail on these elements is provided in the Group Results section. Excluding these items, IIA was profitable in both years, however returns remain well below acceptable levels. On a like-for-like basis, the underlying margin metrics reveal:

Stable underlying performance throughout FY21

- FY20's underlying margin was around 2.5%, with a negligible contribution in 2H20; and
- FY21's underlying margin was approximately 3.9% and has been stable at this level across both halves.

The main drivers of IIA's underlying and reported insurance profit are discussed in more detail below.

Underlying Claims Experience

IIA's underlying claims ratio (excluding reserve movements, natural perils and discount rate adjustments) was 53.9%, a significant overall improvement compared to the 61.4% recorded in FY20.

5. INTERMEDIATED INSURANCE AUSTRALIA

IMMUNISED LOSS RATIO Intermediated Insurance Australia	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Immunised underlying net claims expense	**644**	**815**	**663**	**630**	**1,459**	**1,293**
Discount rate adjustment	-	33	4	(16)	33	(12)
Reserving and perils effects	131	273	120	285	404	405
Reported net claims expense	**775**	**1,121**	**787**	**899**	**1,896**	**1,686**
Immunised underlying loss ratio	**54.1%**	**68.8%**	**55.0%**	**52.9%**	**61.4%**	**53.9%**
Discount rate adjustment	-	2.8%	0.4%	(1.3%)	1.4%	(0.5%)
Reserving and perils effects	11.0%	23.0%	9.9%	23.9%	17.0%	16.9%
Reported loss ratio	**65.1%**	**94.6%**	**65.3%**	**75.5%**	**79.8%**	**70.3%**

The underlying claims ratio was heavily impacted by recognition of a COVID-19 provision in 2H20. Excluding this item, the ratio still improved in FY21 relative to FY20, with a sequential improvement from 55.0% in 1H21 (no material COVID-19 impacts) to 52.9% in 2H21.

The underlying claims performance included the net effect of a number of factors. On the positive side, the ratio benefited from:

- An improvement in claims experience in short tail portfolios across personal and commercial lines compared to FY20 as a result of active portfolio management;
- Reduced personal lines home claims frequency compared to FY20, as customers continued to work from home;
- Better rural packages claims experience than FY20 reflecting portfolio enhancement over the last 18 months;
- The effect of higher premium rates; and
- Lower large property losses compared to FY20, despite a slight increase in 2H21 compared to 1H21.

These improvements were partially offset by:

- A deterioration in commercial long tail classes compared to FY20 mainly due to adverse claims experience in professional risks and general liability. Ongoing remediation remains a key focus on these portfolios; and
- Upward pressure on personal motor claims costs, driven by frequency returning to pre-COVID 19 levels and inflation in parts and repair costs. This is consistent with DIA, but less material.

Reserve Releases / Strengthening

Prior year reserve deterioration of $119m in FY21 occurred mainly across commercial long-tail classes (1H21: deterioration of $34m). Adverse trends appear to be driven by systemic issues where mixed economic conditions have enhanced focus on personal injury compensation. More specifically, the deterioration in IIA included:

- ~$75m of strengthening related to liability classes, mainly due to higher average claim sizes in recent accident years, as claim frequency has improved (~$25m in 1H21);
- ~$50m of professional risk reserve strengthening (~$30m in 1H21) as a result of an increased incidence of medium to large claims;
- ~$20m of workers' compensation reserve strengthening driven by extended duration of claims and moderately higher frequency (~$15m in 1H21); partially offset by
- Some positive claim settlements in commercial and personal short tail classes of around $25m, which mostly occurred in 1H21 (~$35m in 1H21).

Further reserve strengthening across long-tail lines

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5. INTERMEDIATED INSURANCE AUSTRALIA

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Natural Perils

Natural peril costs (net of reinsurance) in FY21 totalled $286m, broadly in line with the related allowance of $274m. IIA was impacted by the storm and hail events that affected NSW/QLD in October 2020, the NSW/QLD floods in late March 2021 and Victoria flooding in June 2021. IIA also incurred a relatively high proportion of the overall loss the Group suffered from Cyclone Seroja which made landfall in Western Australia in April 2021.

A detailed list of significant natural perils costs is available in the Group Result section.

Perils broadly in line with related allowance

Expenses

IIA's commission ratio was stable at around 16% across FY20 and FY21.

Underwriting expenses grew from $355m in FY20 to $384m in FY21, with most of that increase a 2H21 feature. This reflects:

- Increased technology, compliance, governance and corporate insurance spend; and
- Costs associated with the transition to the new operating model.

FEE-BASED INCOME

The profit from fee-based business of $4m (FY20: $5m profit) was largely driven by the Victorian workers' compensation business. With effect from 1 July 2021, IIA will no longer act as an agent under the Victorian scheme.

6. NEW ZEALAND

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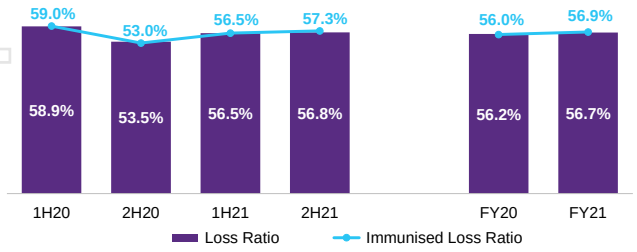
FINANCIAL PERFORMANCE

NEW ZEALAND	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Gross written premium	**1,348**	**1,406**	**1,368**	**1,410**	**2,754**	**2,778**
Gross earned premium	1,357	1,376	1,362	1,368	2,733	2,730
Reinsurance expense	(533)	(565)	(566)	(558)	(1,098)	(1,124)
Net earned premium	**824**	**811**	**796**	**810**	**1,635**	**1,606**
Net claims expense	(485)	(434)	(450)	(460)	(919)	(910)
Commission expense	(90)	(92)	(94)	(93)	(182)	(187)
Underwriting expense	(99)	(124)	(98)	(114)	(223)	(212)
Underwriting profit	**150**	**161**	**154**	**143**	**311**	**297**
Investment income on technical reserves	6	13	8	-	19	8
Insurance profit	**156**	**174**	**162**	**143**	**330**	**305**

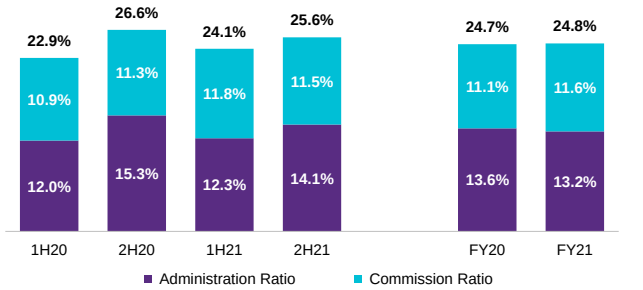
Insurance Ratios	1H20	2H20	1H21	2H21	FY20	FY21
Loss ratio	58.9%	53.5%	56.5%	56.8%	56.2%	56.7%
Immunised loss ratio	59.0%	53.0%	56.5%	57.3%	56.0%	56.9%
Expense ratio	22.9%	26.6%	24.1%	25.6%	24.7%	24.8%
Commission ratio	10.9%	11.3%	11.8%	11.5%	11.1%	11.6%
Administration ratio	12.0%	15.3%	12.3%	14.1%	13.6%	13.2%
Combined ratio	81.8%	80.1%	80.6%	82.4%	80.9%	81.5%
Immunised combined ratio	81.9%	79.6%	80.6%	82.9%	80.7%	81.7%
Reported insurance margin	18.9%	21.5%	20.4%	17.7%	20.2%	19.0%
Underlying insurance margin	18.9%	18.3%	18.6%	14.3%	18.6%	16.4%

INSURANCE RATIOS

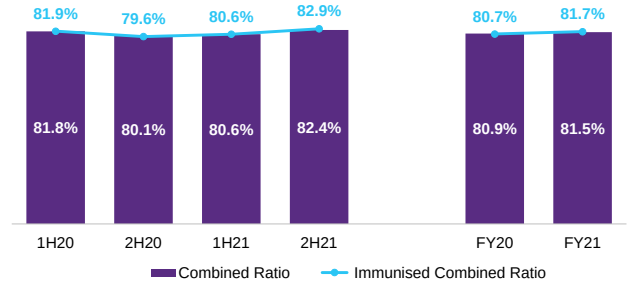
LOSS RATIO



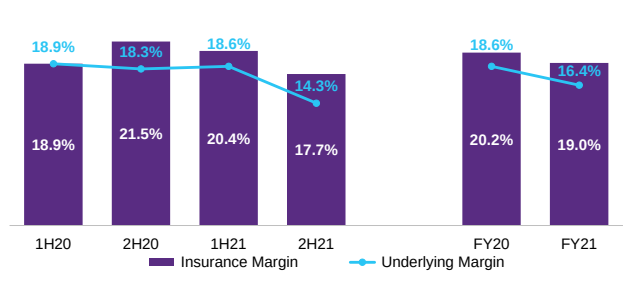
EXPENSE RATIOS



COMBINED RATIO



INSURANCE MARGIN



6. NEW ZEALAND

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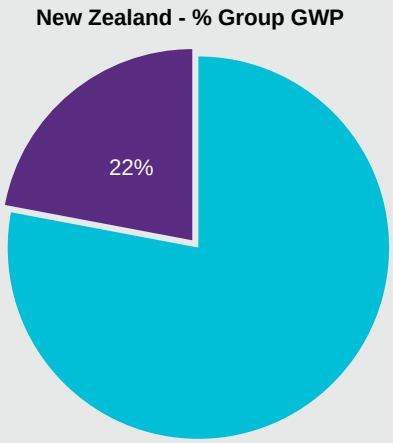
EXECUTIVE SUMMARY

New Zealand snapshot

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley brands
- IAG New Zealand sells products through a combination of direct and intermediated channels
- The Consumer Division sells products directly to customers under the State, AMI and Lantern brands, and distributes products through IAG's banking partners ASB, Westpac, BNZ and the Co-Operative Bank
- The Business Division distributes products through a nationwide network of qualified and experienced brokers under the NZI and Lumley brands
- IAG New Zealand's strategy is to become a simpler, stronger, more resilient business by continuing to support its partners and customers through services such as Repairhub and enhanced digital offerings

FY21 Performance

- Local currency GWP growth of 2.8%
- GWP growth driven by rate increases across all key portfolios
- Volume growth in commercial property, private and commercial motor portfolios
- A lower FY21 underlying margin of 16.4% (FY20: 18.6%) partly reflecting a return to a pre COVID-19 claims environment



PREMIUMS

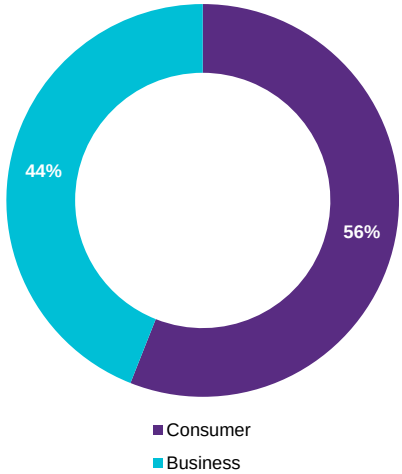
New Zealand's local currency GWP grew by 2.8% in FY21, to NZ$2,984m (FY20: NZ$2,904m). The 2H21 growth rate was comparable to 1H21. This outcome was driven by:

- Solid GWP growth from Business, driven by volume increases in the commercial property, private and commercial motor portfolios, and higher rates across most key portfolios; and
- Sound GWP growth from Consumer, with increased rates across all key portfolios, and volume growth in the direct commercial motor book, more than offset by a reduction in the personal lines portfolios.

In reported terms, New Zealand recorded FY21 GWP growth of 0.9% to $2,778m, reflecting a modestly unfavourable foreign exchange translation effect. There were no material COVID-19 GWP impacts in FY21.

Local currency GWP growth of 2.8%

NEW ZEALAND FY21 GWP - DIVISION



Business

Business represented 44% of New Zealand's GWP in FY21 (FY20: 44%), with local currency GWP growth of 3.2%.

- The performance was led by the commercial property and construction and engineering portfolios, which achieved strong growth from a combination of increased volume and higher rates. GWP across both the liability and commercial motor portfolios was broadly in line with prior year levels.
- Retention rates continue to be strong with key commercial portfolios in line or up on FY20 levels. Overall, new business growth was slightly down on prior year levels.
- Business' personal lines GWP was stable compared with FY20 with lower volumes in the home portfolios offsetting volume growth in motor. The

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6. NEW ZEALAND

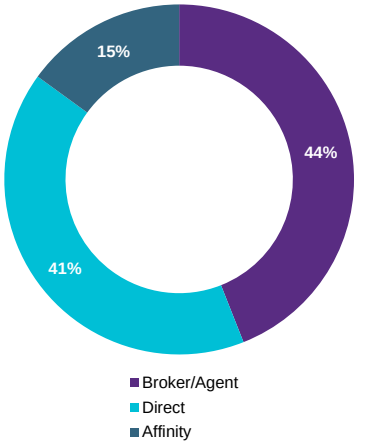
division continues to reinforce disciplined underwriting and appropriately price for risk. The private motor portfolio delivered growth through rate and volume. Higher rate was offset by volume loss in the home portfolios.

Consumer

Consumer represented 56% of New Zealand's GWP in FY21 (FY20: 56%) and achieved local currency GWP growth of 2.4%.

- Growth was led by the direct (State and AMI) brands, primarily through rate increases across all key personal lines portfolios. Volume growth was achieved in the State motor and AMI homeowner portfolios, offset by softer volumes in other portfolios.
- Direct new business levels remained strong, with all personal line portfolios ahead of FY20. However, Direct retention rates were slightly down on prior year levels.
- GWP for personal lines written through bank partners remained broadly in line with FY20. Retention rates remain strong and are in line with prior year levels while higher rates offset lower new business growth.
- Consumer's direct commercial lines portfolio achieved solid GWP growth in FY21 largely driven by rate increases across all key portfolios along with some volume growth in commercial motor.

NEW ZEALAND FY21 GWP - CHANNEL



Customer Initiatives

A number of key initiatives that focussed on customers occurred in FY21. These included:

- The opening of a second Repairhub site in Christchurch in May 2021 as part of the plan to expand Repairhub and build better businesses. Repairhub's goal is to respond to customers' feedback for faster high-quality motor repairs and an improved customer experience. It continues to meet performance objectives with over 6,000 vehicles repaired through the first site in Auckland, opened in November 2019;
- A partnership between AMI and Habitat for Humanity to help improve the lives of 75,000 New Zealanders living in sub-standard homes. Creating safe and healthy homes fits alongside IAG's purpose to make your world a safer place. AMI will be working alongside Habitat for Humanity to provide housing basics like curtains and heating, and manage home repairs that help make homes warmer, drier and safer; and
- Achieving the Rainbow Tick accreditation, for supporting gender diverse customers. As part of this commitment, IAG New Zealand is supporting customers who wish to be identified on their policies as non-binary, or be identified according to their affirmed gender, which may differ from their gender at birth. Acknowledgment of this identity respects customers' choice and provides a more equitable customer experience.

Digital Initiatives

COVID-19 was a catalyst for a marked shift to digital channels as customers benefited from having more flexibility in how and when they interact. Progress on digital initiatives included:

- An enhancement to the "My AMI" portal, launched in April 2021. This allows AMI personal lines customers to view and download all current and historical insurance documents online, avoiding the need to call IAG;
- The launch of a quote and buy portal by State in June 2021, allowing State SME customers to obtain quotes and purchase policies online. This provides customer choice and flexibility; and
- Continued enhancements and initiatives from State and AMI online propositions, which have resulted in an increase in digital sales of almost 40% on FY20 levels.

Noticeable shift to digital channels

6. NEW ZEALAND

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INSURANCE PROFIT

New Zealand achieved an insurance profit of $305m in FY21, compared to $330m in FY20. This translated to a reported insurance margin of 19.0% (FY20: 20.2%).

INSURANCE MARGIN IMPACTS New Zealand	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Underlying insurance profit	**156**	**148**	**148**	**115**	**304**	**263**
Reserve releases/(strengthening)	14	4	18	18	18	36
Natural perils	(57)	(21)	(51)	(37)	(78)	(88)
Natural peril allowance	43	43	47	47	86	94
Reported insurance profit	**156**	**174**	**162**	**143**	**330**	**305**
Underlying insurance margin	**18.9%**	**18.3%**	**18.6%**	**14.3%**	**18.6%**	**16.4%**
Reserve releases/(strengthening)	1.7%	0.5%	2.3%	2.2%	1.1%	2.2%
Natural perils	(6.9%)	(2.6%)	(6.4%)	(4.6%)	(4.8%)	(5.5%)
Natural peril allowance	5.2%	5.3%	5.9%	5.8%	5.3%	5.9%
Reported insurance margin	**18.9%**	**21.5%**	**20.4%**	**17.7%**	**20.2%**	**19.0%**

A lower FY21 underlying margin of 16.4% (FY20: 18.6%) partly reflected a return to a pre COVID-19 claims environment with FY20 benefiting from lower claims frequency. Some transitional costs associated with IAG's new operating model and a property consolidation provision also impacted 2H21.

Decline in 2H21 underlying margin partly reflecting some one-off costs

The main drivers of New Zealand's underlying and reported insurance profit are discussed in more detail below.

Underlying Claims Experience

New Zealand incurred a higher underlying loss ratio of 53.6% in FY21 (FY20: 52.3%).

IMMUNISED LOSS RATIO New Zealand	1H20 A$m	2H20 A$m	1H21 A$m	2H21 A$m	FY20 A$m	FY21 A$m
Immunised underlying net claims expense	**443**	**413**	**417**	**445**	**856**	**862**
Discount rate adjustment	(1)	4	-	(4)	3	(4)
Reserving and perils effects	43	17	33	19	60	52
Reported net claims expense	**485**	**434**	**450**	**460**	**919**	**910**
Immunised underlying loss ratio	**53.8%**	**50.9%**	**52.4%**	**54.9%**	**52.3%**	**53.6%**
Discount rate adjustment	(0.1%)	0.5%	-	(0.5%)	0.2%	(0.2%)
Reserving and perils effects	5.2%	2.1%	4.1%	2.4%	3.7%	3.3%
Reported loss ratio	**58.9%**	**53.5%**	**56.5%**	**56.8%**	**56.2%**	**56.7%**

Compared to FY20, the softer underlying loss ratio was influenced by the following main factors:

- Motor claim frequency returning to pre COVID-19 levels;
- Higher large (greater than NZ$100,000) home and commercial claims in 2H21 compared to 1H21, although on a full year basis these large claims were comparable to FY20;
- An increase in home claims frequency attributable to a higher number of people working from home post the COVID-19 lockdowns. Average claim costs for home have also increased, reflecting a change in the mix in types of claims being reported, with an increase in accidental and water damage claims which typically cost more to settle. IAG continues to

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closely monitor these trends and will address impacts where required, including on-going pricing reviews; and

- Rate increases that were deferred in response to COVID-19 and therefore lagged some of the underlying claim inflation in FY21.

Reserve Releases / Strengthening

Prior period reserve releases of $36m were recognised in FY21, compared to releases of $18m in FY20. The releases were predominantly attributable to favourable prior year working claims development across a number of portfolios.

Natural Perils

Several large natural peril events were experienced in 1H21, however peril activity in 2H21 was relatively benign. The largest event during FY21 was the Napier flood in November with a net cost of $16m.

Relatively benign 2H21 peril activity

A detailed list of significant natural peril costs for New Zealand is available in the Group Results section.

Canterbury earthquake settlements

Good progress continues to be made with the settlement of claims associated with the FY11 Canterbury earthquake events. At 30 June 2021 over NZ$7.1bn of claim settlements had been completed, with less than 600 claims remaining open out of more than 90,000 received.

Expenses

The New Zealand commission ratio increased from 11.1% in FY20 to 11.6% in FY21.

The administration expense ratio decreased from 13.6% in FY20 to 13.2% in FY21, with some volatility from half to half a function of:

- Costs to close the AMI branch network included in 2H20; and
- Property consolidation and new operating model costs in 2H21, which are not expected to recur.

7. MARKET REGULATION AND LEGISLATIVE REFORM

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AUSTRALIA

The Australian Government agreed to act on all the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Royal Commission legislation passed

- On 12 November 2020, the Treasurer the Hon Josh Frydenberg introduced the **Financial Sector Reform (Hayne Royal Commission Response) Bill 2020** into the House of Representatives, including new rules prohibiting the hawking of financial products, a Deferred Sales Model for add on insurance, making claims handling a financial service, a duty to take reasonable care to not misrepresent, and breach reporting. The Bill was subsequently debated and passed by the House of Representatives on 9 December 2020 and the Senate on 10 December 2020 and received Royal Assent on 17 December 2020.

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

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

- On 16 July 2021, the Australian Government released exposure draft legislation to implement the **Financial Accountability Regime** recommendations of the Financial Services Royal Commission into Misconduct. Submissions are due 13 August 2021.
- In May 2017, the Australian Government asked the ACCC to conduct an **Inquiry into the supply of home, contents and strata insurance in Northern Australia**. On 28 December 2020, the ACCC published the Northern Australia Insurance Inquiry Final Report as required under the Competition and Consumer Act 2010. The ACCC has made 38 recommendations for reform. The Australian Government is expected to provide a response to the ACCC recommendations in the second half of 2021 calendar year;
- 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. A Final Report was released on 9 December 2020 and found widespread market failure regarding the availability and affordability of essential small business insurance products. The Australian Government is expected to provide a response to the recommendations in the second half of the 2021 calendar year;
- On 4 June 2021, the Australian Small Business and Family Enterprise Ombudsman launched a **Review of the Discretionary Mutual Fund proposed for small businesses** in the amusement, leisure and recreation sector unable to secure essential insurance coverage;
- In February 2020, the Australian Government established the **Royal Commission into National Natural Disaster Arrangements** after the extreme bushfire season. On 13 November 2020, the Government released its response. It supports all the Commission's recommendations. The Australian Government established the National Recovery and Resilience Agency, the Australian Climate Service and announced funding of $615.5m over six years to support disaster risk reduction activities and other measures;
- 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 25 June 2021, IAG's CEO appeared before the Committee. The Inquiry will continue in 2021-22.
- On 13 January 2021, the Treasury released for consultation information on **deferred sales model exemptions**. The Treasury invited

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stakeholders to provide evidence for any classes of add-on insurance products that represent a very high level of consumer value where it would not be appropriate that they be captured by the deferred sales model. Submissions for requested exemptions were due 15 February 2021. The Government announced on 9 July 2021 it will exempt from the deferred sales model a number of classes of insurance products. The Deferred Sales Model will be effective from 5 October 2021;

- On 18 December 2020, the Government released exposure draft legislation for the **mandatory motor vehicle service and repair information sharing scheme** for consultation. The main regulatory impact will be on parties currently sharing service and repair information, such as motor vehicle manufacturers, as they will be required to expand their systems to provide information to a broader range of repairers. In June 2021, the Australian Government announced it will establish a mandatory scheme for car manufacturers to share motor vehicle service and repair information with independent repairers at a fair market price. This new scheme will come into effect 1 July 2022;
- In October 2020, the Australian Government asked the Productivity Commission to conduct an **Inquiry into the Right to Repair**. Initial submissions were due by 1 February 2021. The Draft Report was released on 11 June 2021, with submissions due on 23 July 2021. A final report is expected to be provided to the Government in October 2021.
- On 11 December 2020, ASIC released **a regulatory guide on product design and distribution obligations** following extensive consultation. The design and distribution obligations require firms to design financial products to meet the needs of consumers and to distribute their products in a more targeted manner (effective 5 October 2021);
- On 25 November 2020, APRA commenced a consultation to update the **insurance capital and reporting frameworks** in recognition of the implementation of Australian Accounting Standards Board 17 Insurance Contracts (AASB 17). The consultation closed on 31 March 2021, with APRA expected to release updated capital and reporting standards in late-2021 for further consultation. The final APRA capital and reporting standards will become effective from 1 July 2023;
- On 22 April 2021, APRA released Prudential Practice Guide (PPG) CPG 229 - **Climate Change Financial Risk** for consultation. CPG 229 is designed to assist APRA-regulated entities in managing climate-related risks and opportunities as part of their existing risk management and governance frameworks. Submissions were due 31 July 2021. The final PPG is expected to be released before the end of 2021;
- On 10 March 2021, the Treasury released for consultation draft regulation amendments and explanatory materials for changes to regulations that support the **breach reporting rules**. The Insurance Council of Australia made a submission on 14 April 2021 and the industry continues to consult with the Treasury;
- On 4 May 2021, the Australian Government announced its intention to establish a **reinsurance pool for cyclones and related flood damage**, to commence from 1 July 2022 and be backed by a $10 billion Government guarantee. On 21 May 2021, the Treasury released a *Consultation Paper* seeking feedback on the design of the reinsurance pool. Submissions were due 18 June 2021;
- On 25 and 26 May 2021, the NSW Standing Committee on Law and Justice held hearings for the 2020 **Review of the CTP and Lifetime Care and Support schemes.** Key themes from the hearings included

7. MARKET REGULATION AND LEGISLATIVE REFORM

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stakeholder concerns over potential insurer "super profits" and the calculation of premiums, the extension of no-fault benefits beyond the current six months and the perceived power imbalance between insurers and claimants. A report by the Committee detailing recommendations is anticipated to be tabled before Parliament in late 2021;

- On 19 February 2021, the Government announced a **Review of the Australian Financial Complaints Authority** (AFCA). Submissions were due 26 March 2021. The Review is independent of AFCA and being conducted by the Treasury, with a report to be finalised and presented to the Minister by 13 August 2021;
- On 20 May 2021, the Insurance Council of Australia released for consultation an independent review that sets out options for tackling the **availability and affordability of commercial lines** of insurance, particularly for small and medium sized enterprises (SMEs);
- The new **General Insurance Code of Practice** (GICOP or "the Code") commenced on 1 July 2021. The Insurance Council of Australia continues to work with the industry to obtain ASIC approval of the Code, which will include work on Enforceable Code Provisions. It is anticipated that the Code will be submitted to ASIC for approval by December 2021.

NEW ZEALAND

- In August 2020, the **New Zealand Government** announced that it would be implementing all recommendations from the **Public Inquiry into the Earthquake Commission**, which was completed in April 2020, through operational changes at the Earthquake Commission and amendments to the Earthquake Commission Act 1993. The review and updating of the Act will also include a wider range of issues that have been under consideration since 2015. The Government is also reviewing the EQC cap, which is currently set at $150,000.
- The new **Financial Advice Regime** commenced on 15 March 2021. New requirements governing the provision of financial advice, including conduct, competence, client care, and disclosure apply. Full licenses are required to be applied for by insurers and approved by the Financial Markets Authority (FMA) by March 2023.
- In September 2020, the **New Zealand Government** announced that a mandatory climate change disclosure regime will be introduced for listed companies and regulated entities. It will be on a 'comply-or-explain' basis and will be based on the framework developed by the **Task Force on Climate-related Financial Disclosures**. The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was introduced to Parliament on 4 April 2021 and was referred to the Environment Select Committee for consideration. The FMA will be responsible for independent monitoring, reporting, and enforcement.
- The **Finance and Expenditure Select Committee** reported back on the Financial Markets (Conduct of Institutions) Amendment Bill in August 2020, making a number of changes, including to the treatment of intermediaries. In April 2021, the Ministry of Business, Innovation and Employment (MBIE) released two parallel consultations that relate to finalising the new conduct regime. The first is on the potential content of regulations to be made under the Bill, and the second concerns the treatment of intermediaries under the Bill.

7. MARKET REGULATION AND LEGISLATIVE REFORM

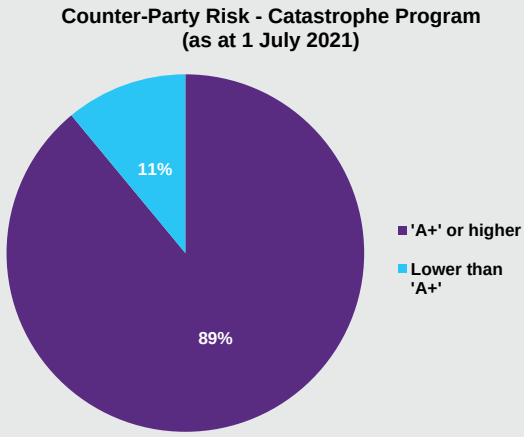
- In September 2020, the **Reserve Bank of New Zealand** relaunched its review of the **Insurance (Prudential Supervision) Act**. Initial consultation took place in October 2020 and further consultation on the scope of the Act and its treatment of overseas insurers occurred between November 2020 and March 2021. 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. There is also a parallel review of Solvency Standards. This is expected to take place in two phases, over the period 2020 to 2023. It will address the introduction of the accounting standard, IFRS 17, as well as the detail of capital charges and other components of the standards.
- The **Insurance Contracts Bill** remains under review. The Bill seeks to modernise and consolidate a range of existing insurance law into a single Act. However, amongst other things, it is expected to extend the compliance monitoring and enforcement power of the FMA.

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8. REINSURANCE

EXECUTIVE SUMMARY

- Calendar 2021 gross catastrophe cover up to $10bn unchanged from 2020
- Catastrophe cover placed to 67.5% to reflect quota share agreements
- Post-quota share Group maximum event retention (MER) of $169m at 1 July 2021
- Aggregate cover has transitioned to financial year basis
- FY22 aggregate protection ($236m in excess of $270m, post-quota share)
- No perils stop-loss cover purchased for FY22



REINSURANCE STRATEGY

Reinsurance is an important part of IAG's approach to capital management. IAG maintains 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 2021 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 external reinsurance treaty spend of the Australian and New Zealand business. A key responsibility of this unit is to capture and manage counter-party and regulatory exposures.

MARKET ENVIRONMENT

The reinsurance industry continued to experience reduced large natural peril catastrophic events over the past year. However, returns remain under pressure given the volume of small-medium sized peril events, non-natural peril losses and low yields. Reinsurer appetite remains limited on layers and programs with high attritional loss activity, increasing upward pricing pressure. Capacity continues to be allocated on a program by program basis influenced by loss experience, risk appetite and relationship longevity. Overall, the market remains robust and healthy with new reinsurance capacity readily available, ensuring terms and structure can meet insurance company requirements and satisfy reinsurer appetite.

Some pricing pressure on earnings volatility covers

WHOLE-OF-ACCOUNT QUOTA SHARE

IAG employs reinsurance capital via whole-of-account quota shares, with 32.5% of IAG's business subject to these arrangements which include:

- A ten-year, 20% arrangement with Berkshire Hathaway which commenced 1 July 2015; 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.

32.5% of consolidated business remains subject to quota share

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8. REINSURANCE

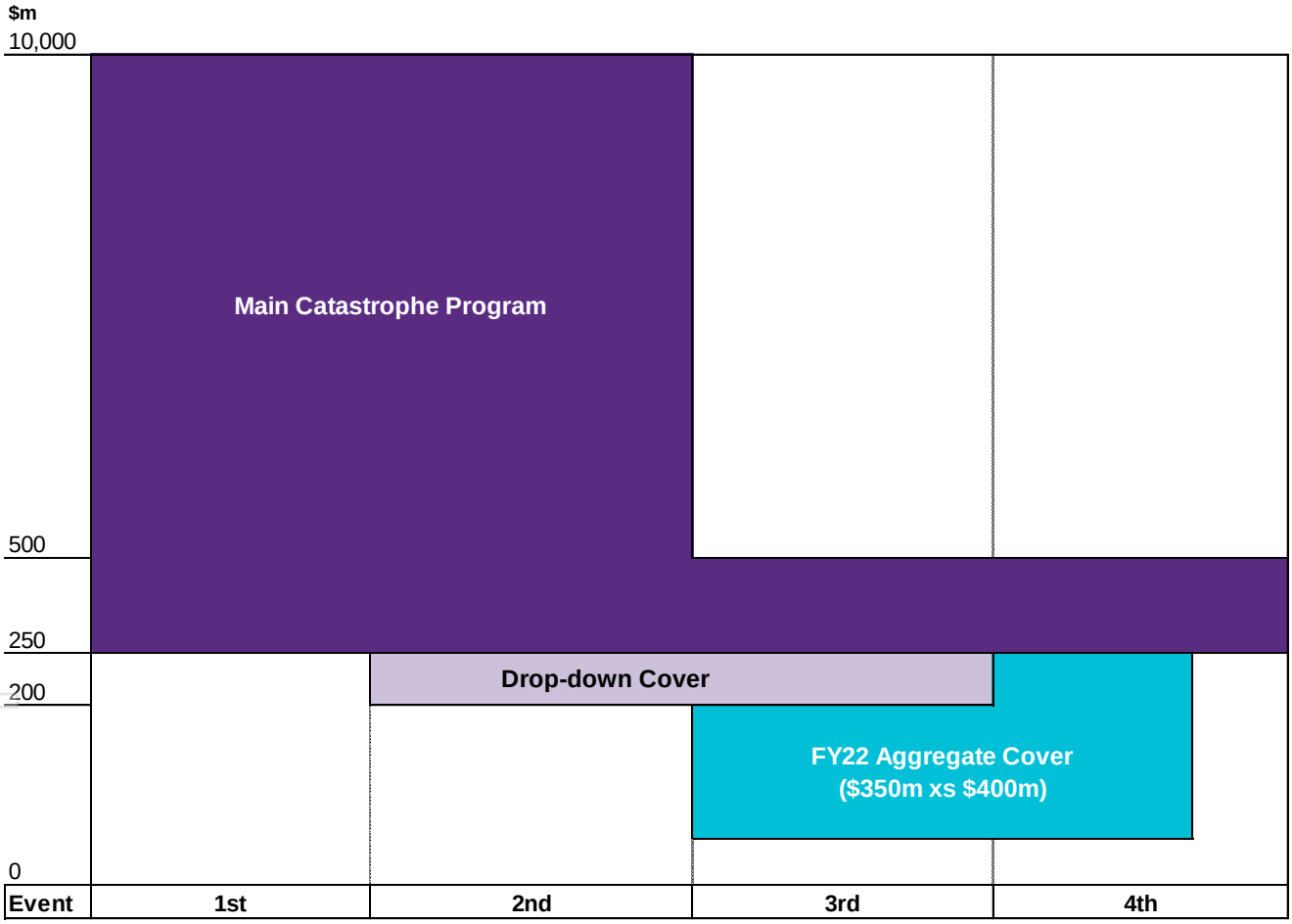
All the individual agreements deliver similar benefits and financial effects, on a pro-rata basis. These include:

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

CATASTROPHE COVER

IAG's catastrophe reinsurance protection runs to a calendar year, operates on an excess of loss basis and covers all territories in which IAG operates.

GROSS CATASTROPHE REINSURANCE – AS AT 1 JULY 2021



The main features at a gross (pre-quota share) level include:

- A main catastrophe cover for losses up to $10bn, including one prepaid reinstatement;
- IAG retaining the first $250m (2020: $250m) of each loss;
- Second and third event drop-down covers of $50m, reducing the cost of these events to $200m (2020: $50m for a second event); and
- Three prepaid reinstatements secured for the lower layer ($250m excess of $250m) of the main program (2020: three).

Around 90% of limits have been placed with 'A+' or higher rated entities for the calendar 2021 property catastrophe program.

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

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8. REINSURANCE

IAG transitioned its aggregate catastrophe cover from a calendar to financial year basis in 2020. The aggregate sideways cover for the 12-month period to 30 June 2022 provides $350m of protection in excess of $400m. Qualifying events are capped at $200m excess of $50m per event.

After allowance for the cumulative quota share arrangements in place, the combination of all catastrophe covers resulted in IAG having maximum event retentions (MERs) at 1 July 2021 of $169m, $135m and $68m respectively for a first, second and subsequent event.

CATASTROPHE REINSURANCE PROGRAM		
Cover	**Gross**	**Net of quota share (67.5%)**
Main cover	$9.75bn xs $250m	$6.58bn xs $169m
Aggregate cover	$350m xs $400m	$236m xs $270m
Aggregate cover qualifying events	$200m xs $50m	$135m xs $34m
Retentions	**Gross**	**Net of quota share (67.5%)**
First event	$250m	$169m
Second event	$200m	$135m
Subsequent event	$100m	$68m

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 was extended for a minimum period of 24 months to 30 June 2022. IAG maintained the 30% CTP cession at 1 July 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 currently subject to quota share.

Maintained CTP quota share at 30%

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances for property and casualty which protect it in all territories in which it underwrites. These were renewed at 30 June 2021 with little change to the expiring placements.

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.

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 February 2011 earthquake and asbestos.

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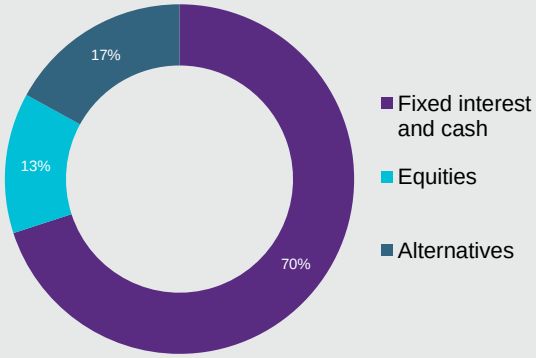
9. INVESTMENTS

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EXECUTIVE SUMMARY

- Total investments of $12.4bn as at 30 June 2021
- Investment allocation conservatively positioned
- Technical reserves of $7.4bn invested in fixed interest and cash
- Shareholders' funds of $5.0bn – defensive asset weighting of ~70%
- Investment return on technical reserves assisted by narrowing of credit spreads
- Improvement in shareholders' funds income due to relative strength in investment markets

Shareholders' Funds Mix - 30 June 2021



INVESTMENT PHILOSOPHY

IAG's investment philosophy is to:

- 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 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 nearly 90% of total investments in fixed interest and cash as at 30 June 2021**.** 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).

IAG's allocation to growth assets (equities and alternatives) was around 30% of shareholders' funds at 30 June 2021, ~3% higher than the level at 31 December 2020.

Distinct investment strategies for technical reserves and shareholders' funds

INVESTMENT ASSETS

Total investments of $12.4bn as at 30 June 2021 increased by $2.3bn compared to the position at 30 June 2020, reflecting the combined effect of:

- $450m in proceeds from the issue of subordinated convertible term notes on 24 August 2020;
- $776m in proceeds from the $650m institutional placement on 20 November 2020 and subsequent retail Share Purchase Plan;
- A $330m reduction following transfer of the management of the IAG and NRMA Superannuation Plan to a third party in November 2020; and
- Operational and earnings changes in the period.

Total investments increased by $2.3bn, largely reflecting capital raised

9. INVESTMENTS

GROUP INVESTMENT ASSETS	1H20 A$bn	FY20 A$bn	1H21 A$bn	FY21 A$bn
Technical reserves	6.0	5.8	7.1	7.4
Shareholders' funds	4.0	4.3	4.6	5.0
Total investment assets	**10.0**	**10.1**	**11.7**	**12.4**

ASSET ALLOCATION

Since 30 June 2020, the growth assets mix in shareholders' funds has increased, from ~25% to ~30%. This reflects:

- The impact of higher domestic and offshore equity markets;
- Positive mark-to-market impacts from alternative asset classes;
- The transfer of the management of the IAG and NRMA Superannuation Plan to a third party; and
- A small reallocation of funds out of fixed interest and cash.

Nearly 90% of total investments in fixed interest and cash

Prior to FY20, IAG's growth assets weighting in shareholders' funds has typically been in the range of 40-50%, in line with the strategic asset allocation target. In the near term, IAG expects its growth assets weighting to be below this range.

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.

In addition, IAG has established targets to reduce the Normalised Carbon Footprint and Carbon Intensity for its Australian and global listed equity mandates. Tracking of progress against these targets will be reported annually in IAG's climate-related disclosures.

Carbon reduction targets established

IAG hedges foreign currency exposures within its investment portfolios.

ASSET ALLOCATION

SHAREHOLDERS' FUNDS	1H20 %	FY20 %	1H21 %	FY21 %	FY21 A$m
Australian equities	7.0	3.7	4.4	5.2	258
International equities	15.6	4.7	5.8	7.3	361
Alternatives	26.6	17.1	16.5	17.2	860
Fixed interest and cash	50.8	74.5	73.3	70.3	3,504
Total	**100.0**	**100.0**	**100.0**	**100.0**	**4,983**
TECHNICAL RESERVES	**%**	**%**	**%**	**%**	**A$m**
Fixed interest and cash	100.0	100.0	100.0	100.0	7,434
Total	**100.0**	**100.0**	**100.0**	**100.0**	**7,434**
TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES	**%**	**%**	**%**	**%**	**A$m**
Australian equities	2.8	1.6	1.7	2.1	258
International equities	6.3	2.0	2.3	2.9	361
Alternatives	10.7	7.3	6.5	6.9	860
Fixed interest and cash	80.2	89.1	89.5	88.1	10,938
Total	**100.0**	**100.0**	**100.0**	**100.0**	**12,417**

Alternative investments totalled $860m (FY20: ~$740m), or approximately 17% of shareholders' funds. The allocation to alternative investments currently includes higher yielding credit strategies, global convertible bonds, hedge funds and private equity.

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9. INVESTMENTS

ALTERNATIVES	FY20 A$m	1H21 A$m	FY21 A$m
Global convertible bonds	148	171	225
Higher yielding credit	371	365	381
Hedge funds	141	139	139
Private equity	79	82	115
Total Alternatives	**739**	**757**	**860**

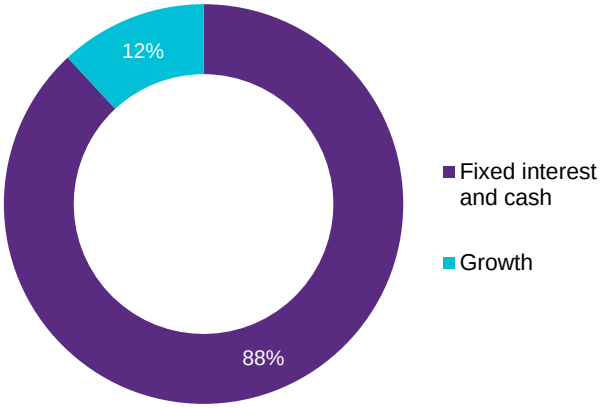
$115m in private equity also includes IAG's residual ~$25m investment in Bohai in China and the Firemark Ventures fund, currently valued at ~$70m.

CREDIT QUALITY OF ASSETS

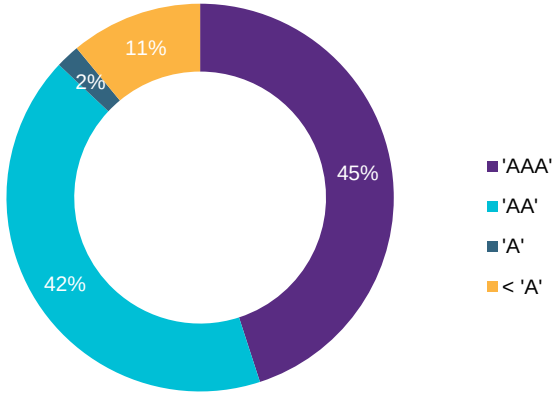
The credit quality of IAG's investment book remains strong, with 87% of the fixed interest and cash portfolio rated 'AA' or higher.

Strong credit quality maintained

ASSET ALLOCATION – 30 JUNE 2021



CREDIT QUALITY – 30 JUNE 2021



*Cash and securities issued with a short-term rating are included in the rating category with the equivalent APRA counterparty grade

INVESTMENT PERFORMANCE

Investment Income on Technical Reserves

Investment income on technical reserves for FY21 was $139m, compared to $145m in FY20. Influences included:

- Higher average investment assets (driven primarily by the business interruption provision) of approximately $6.9bn (FY20: ~$5.9bn);
- A modest increase in risk free rates in FY21, following the significant reduction in FY20; and
- A significant positive effect of $77m from the narrowing of credit spreads, compared to a loss of $46m in FY20.

Lower average yield on technical reserves compared to FY20

After allowance for the factors outlined above, the average yield achieved in FY21 was significantly lower than that of FY20.

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 profit of $306m, compared to a loss of $181m in FY20, reflecting:

- Strong performance across alternative assets, primarily from higher yielding credit strategies, global convertible bonds and hedge funds;

Profit on shareholders' funds driven by market recovery

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9. INVESTMENTS

- Positive equity returns in FY21 reflecting strong market performances (S&P ASX200 Accumulation Index increased by 27.8% and the MSCI World Total Return Index (AUD Hedged) posted an increase of 35.6%) partially diluted by the defensive strategy of IAG's international equity portfolio;
- The move to a more defensive asset allocation in 2H20; and
- Positive fair value adjustments in the Firemark Ventures investment portfolio.

SHAREHOLDERS' FUNDS INCOME	FY20 A$m	FY21 A$m
Equities	(93)	106
Alternatives	(99)	150
Fixed interest and cash	57	31
Total investment return	**(135)**	**287**
Foreign exchange and interest rate hedging effects	(16)	11
Fair value adjustments - Bohai / Firemark Ventures	(13)	20
Management fees	(17)	(12)
Total shareholders' funds income	**(181)**	**306**

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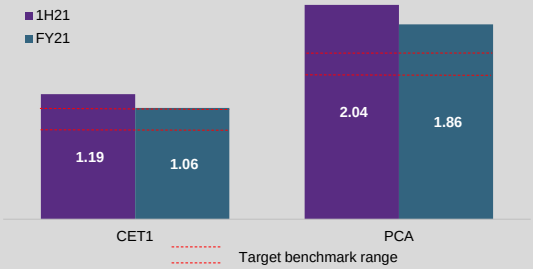
10. BALANCE SHEET & CAPITAL

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EXECUTIVE SUMMARY

- Strong balance sheet and capital position, supported by $776m capital raise
- CET1 multiple of 1.06 vs. benchmark of 0.9-1.1
- PCA multiple of 1.86 vs. benchmark of 1.6-1.8
- Debt and hybrids 37.3% of total tangible capitalisation – in the upper half of targeted range
- $450m of subordinated convertible term notes issued
- S&P 'AA-' rating of core operating subsidiaries

Regulatory Capital



BALANCE SHEET

	1H20 A$m	FY20 A$m	1H21 A$m	FY21 A$m
Assets				
Cash held for operational purposes	324	405	418	326
Investments	9,947	10,100	11,714	12,417
Investments in joint ventures and associates	362	351	341	30
Trade and other receivables	4,029	4,419	4,223	4,354
Reinsurance and other recoveries on outstanding claims	6,014	6,069	6,868	7,272
Deferred insurance expenses	3,542	3,501	3,594	3,601
Goodwill and intangible assets	3,110	3,134	3,176	3,220
Assets held for sale	216	33	37	348
Other assets	1,509	1,682	1,989	1,881
Total assets	**29,053**	**29,694**	**32,360**	**33,449**
Liabilities				
Outstanding claims	10,476	10,584	12,579	13,312
Unearned premium	6,195	6,276	6,271	6,527
Interest bearing liabilities	1,532	1,526	1,976	1,987
Trade and other payables	2,610	2,800	2,842	2,975
Liabilities held for sale	17	14	20	19
Other liabilities	1,848	2,140	2,000	2,073
Total liabilities	**22,678**	**23,340**	**25,688**	**26,893**
Net assets	**6,375**	**6,354**	**6,672**	**6,556**
Equity				
Equity attributable to holders of ordinary shares	6,177	6,077	6,380	6,246
Non-controlling interests	198	277	292	310
Total equity	**6,375**	**6,354**	**6,672**	**6,556**

Notable movements in balance sheet line items between 30 June 2020 and 30 June 2021 included:

- An increase in investments of $2.3bn associated with the funds inflow from the $776m equity raising, the issue of $450m of subordinated convertible term notes, operational changes and positive mark to market movements in the period; partially offset by a $330m outflow following the

Balance sheet movements include capital raising initiatives and the business interruption provision

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transfer of the management of the IAG and NRMA Superannuation Plan to a third party and payment of the 2021 interim dividend;

- An increase of $1.2bn in reinsurance and other recoveries on outstanding claims primarily associated with quota share and other reinsurance relating to potential business interruption and trade credit related claims, increased reserve strengthening on commercial long tail reserves; partially offset by lower natural peril claims;
- An increase of $402m in deferred tax assets primarily due to the recognition of tax losses associated with the business interruption provision;
- A $2.7bn increase in the outstanding claims liability primarily driven by business interruption and trade credit related claims, increased reserve strengthening on commercial long tail reserves, partially offset by lower natural peril claims;
- A $450m increase in interest-bearing liabilities owing to the issuance of subordinated convertible term notes; and
- A $169m increase in shareholders' equity (excluding non-controlling interests) from the equity capital raising and offset by the net loss attributable to shareholders of $427m.

OUTSTANDING CLAIMS

Net Outstanding Claims Liability

IAG's net outstanding claims liability at 30 June 2021 stood at $6,040m, compared to $4,515m at 30 June 2020. The increase reflects:

- Recognition of potential business interruption claims and increased reserve strengthening on commercial long tail reserves; partly offset by
- Lower natural peril claims following a more active period for bushfire and storm activity in the second half of FY20 compared to FY21.

Increase in net claims liability driven by business interruption provision

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 claim reserves being conservatively stated and generally demonstrates favourable development across the period, as the ultimate claim costs were settled or became more certain. Notable recent exceptions to this include:

- The 2016 - 2019 accident years, which reflect the adverse development in commercial long-tail reserves in Australia recognised in FY21; and
- The reserving implications of the increased business interruption provision in November 2020, evidenced in the development of the 2020 accident year as business interruption reserves established in FY20 were reassessed.

10. BALANCE SHEET & CAPITAL

NET ULTIMATE CLAIMS PAYMENTS DEVELOPMENT TABLE	2011 and prior 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	2021 A$m	TOTAL A$m
	Accident Year Ended 30 June											
Development												
At end of accident year		5,242	5,189	5,622	6,312	4,981	5,286	4,510	3,966	4,236	4,338	
One year later		5,316	5,113	5,627	6,238	4,933	5,232	4,424	4,029	4,778		
Two years later		5,257	5,032	5,540	6,174	4,874	5,195	4,414	4,052			
Three years later		5,167	4,953	5,399	6,058	4,812	5,204	4,430				
Four years later		5,115	4,872	5,330	6,055	4,819	5,240					
Five years later		5,055	4,853	5,312	6,043	4,830						
Six years later		5,045	4,855	5,284	6,046							
Seven years later		5,058	4,837	5,273								
Eight years later		5,057	4,834									
Nine years later		5,062										
Current estimate of net ultimate claims		**5,062**	**4,834**	**5,273**	**6,046**	**4,830**	**5,240**	**4,430**	**4,052**	**4,778**	**4,338**	
Cumulative payments made to date		5,009	4,784	5,196	5,928	4,687	5,039	4,136	3,705	3,625	2,328	
Net undiscounted outstanding claims payments	**205**	**53**	**50**	**77**	**118**	**143**	**201**	**294**	**347**	**1,153**	**2,010**	**4,651**
Discount to present value	(3)	(1)	(1)	(2)	(3)	(3)	(3)	(4)	(5)	(9)	(13)	(47)
Net discounted outstanding claims payments	**202**	**52**	**49**	**75**	**115**	**140**	**198**	**290**	**342**	**1,144**	**1,997**	**4,604**
Claims handling costs												404
Risk margin												1,032
Net outstanding claims liability												**6,040**
Gross outstanding claims liability on the balance sheet												13,312
Reinsurance and other recoveries on outstanding claims												(7,272)
Net outstanding claims liability												**6,040**

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 at 30 June 2021 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 net central estimate of outstanding payments, plus the risk margin calculated on a diversified basis, forms the net 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 approximately 21% at 30 June 2021 (FY20: 20%).

CAPITAL

Capital Adequacy

IAG remains strongly capitalised with total regulatory capital of $4,615m at 30 June 2021. The CET1 ratio is IAG's primary capital measure and continues to meet targeted levels at 1.06 times the Prescribed Capital Amount (PCA). This compares to a targeted range of 0.9 to 1.1 times and a regulatory minimum requirement of 0.6 times.

IAG remains strongly capitalised

The CET1 ratio has reduced from 1.19 at 31 December 2020, owing to the net effect of:

- The payment of the FY21 interim dividend;
- Higher non-deductible deferred tax assets;
- An increase in asset risk charges from higher investment assets;
- An increase in insurance risk charges, stemming from increased claims reserves, including trade credit and commercial long tail classes; and
- A modest increase in the insurance concentration risk charge.

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10. BALANCE SHEET & CAPITAL

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H20 A$m	FY20 A$m	1H21 A$m	FY21 A$m
Common Equity Tier 1 Capital (CET1)				
Ordinary shares	6,617	6,617	7,385	7,386
Reserves	42	30	11	13
Retained earnings	(433)	(521)	(982)	(1,120)
Technical provisions in excess of liabilities	425	342	567	576
Minority interests	198	277	292	310
Less: Deductions	(4,135)	(4,178)	(4,506)	(4,530)
Total Common Equity Tier 1 Capital	**2,714**	**2,567**	**2,767**	**2,635**
Additional Tier 1 Capital				
Hybrid equities	404	404	404	404
Total Tier 1 Capital	**3,118**	**2,971**	**3,171**	**3,039**
Tier 2 Capital				
Subordinated term notes	1,136	1,127	1,577	1,576
Total Tier 2 Capital	**1,136**	**1,127**	**1,577**	**1,576**
Total Regulatory Capital	**4,254**	**4,098**	**4,748**	**4,615**
Prescribed Capital Amount (PCA)				
Insurance risk charge	968	1,001	1,089	1,143
Insurance concentration risk charge	169	169	169	192
Diversified asset risk charge	1,431	1,049	1,273	1,389
Aggregation benefit	(570)	(498)	(571)	(614)
Operational risk charge	360	361	371	377
Total Prescribed Capital Amount	**2,358**	**2,082**	**2,331**	**2,487**
PCA multiple	**1.80**	**1.97**	**2.04**	**1.86**
CET1 multiple	**1.15**	**1.23**	**1.19**	**1.06**

Deferred tax losses have increased by ~$20m since 31 December 2020, which reflects an increase in Australia, offset by tax loss utilisation in New Zealand. Total deferred tax losses for the Group stood at ~$620m at 30 June 2021.

Allowing for the final dividend which will be paid in September 2021, the CET1 ratio at 30 June 2021 would reduce to 0.93.

The proposed sale of AmGeneral is expected to result in an increase in IAG's regulatory capital position of approximately $150m on completion, a ~0.06 improvement in the CET1 ratio. This is expected to occur in FY22.

Interest Bearing Liabilities

IAG's interest bearing liabilities stood at $2bn at 30 June 2021, compared to $1.5bn at 30 June 2020 following the issue of subordinated convertible term notes in August 2020.

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10. BALANCE SHEET & CAPITAL

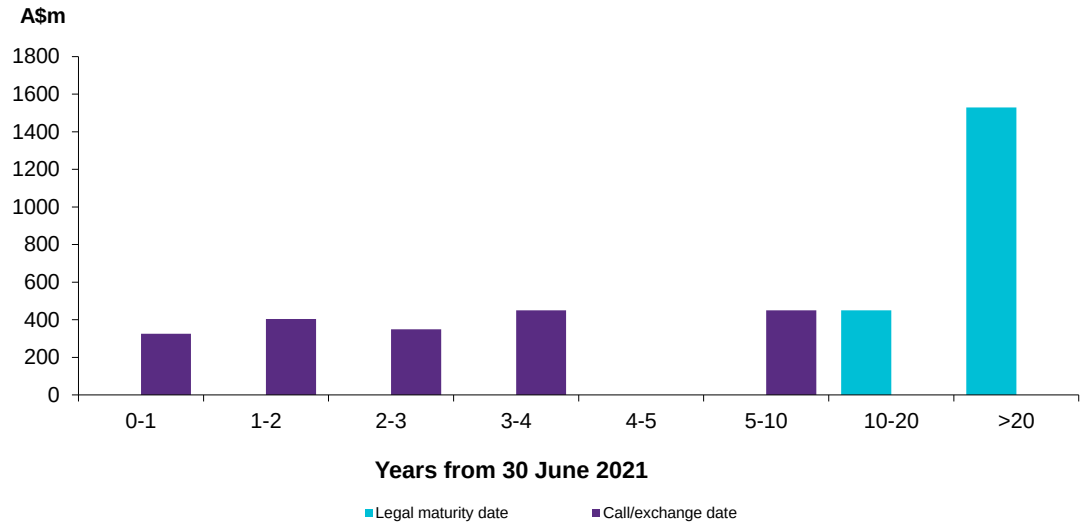
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INTEREST BEARING LIABILITIES	1H20 A$m	FY20 A$m	1H21 A$m	FY21 A$m
Subordinated debt	1,136	1,127	1,577	1,576
Capital Notes	404	404	404	404
Subtotal interest bearing liabilities	**1,540**	**1,531**	**1,981**	**1,980**
Capitalised transaction costs/other	(8)	(5)	(5)	7
Total interest bearing liabilities	**1,532**	**1,526**	**1,976**	**1,987**

GROUP DEBT & HYBRID CAPITAL	Principal amount A$m	A$m	Yield %	Rate	First Call or Exchange date	S&P rating
Subordinated fixed rate notes	NZ$350	326	5.15%	Fixed	Jun-22	'BBB'
Subordinated term notes (issue Mar-18)[1]	A$350	350	2.12%	Variable	Jun-24	'BBB'
Subordinated term notes (issue Mar-19)[2]	A$450	450	2.37%	Variable	Jun-25	'BBB'
Subordinated term notes (issue Aug-20)[3]	A$450	450	2.47%	Variable	Dec-26	'BBB'
Total Debt		**1,576**				
AUD Capital Notes (IAGPD)[4]	A$404	404	4.72%	Variable	Jun-23	'N/R'

[1] *Stated yield based on 3M BBSW + margin of 2.10%*
[2] *Stated yield based on 3M BBSW + margin of 2.35%*
[3] *Stated yield based on 3M BBSW + margin of 2.45%*
[4] *The Capital Notes pay floating rate quarterly interest. The yield shown is the current cash yield.*

DEBT MATURITY PROFILE



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%.

Capital mix within targeted ranges

10. BALANCE SHEET & CAPITAL

CAPITAL MIX	1H20 A$m	FY20 A$m	1H21 A$m	FY21 A$m
Shareholder equity	6,375	6,354	6,672	6,556
Intangibles and goodwill	(3,110)	(3,134)	(3,176)	(3,220)
Tangible shareholder equity	**3,265**	**3,220**	**3,496**	**3,336**
Interest bearing liabilities	1,532	1,526	1,976	1,987
Total tangible capitalisation	**4,797**	**4,746**	**5,472**	**5,323**
Debt to total tangible capitalisation	**31.9%**	**32.2%**	**36.1%**	**37.3%**

At 30 June 2021, debt and hybrids represented 37.3% of total tangible capitalisation, in the upper half of IAG's targeted debt range, an increase since FY20 following the issue of subordinated convertible term notes in August 2020.

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.

Retain intent to manage capital to CET1 benchmark range over longer term

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11. SAFER COMMUNITIES

IAG's **purpose** is to make your world a safer place. The Safer Communities enterprise-wide business plan supports the delivery of this purpose, IAG's strategic pillars and the management of sustainability and ESG risks and opportunities for IAG.

IAG has continued to deliver its purpose through FY21 and has further refined its focus on Climate and Disaster Resilience. This is the area where it can both make a meaningful difference for communities and customers, while supporting our commercial success.



IAG's safer communities and sustainability focus has been shaped by its material issues, IAG's strategy and external frameworks such as the United Nations' Sustainable Development Goals. IAG believes it can leverage its capabilities, expertise and commitment to purpose to make a meaningful difference through prioritisation of work on Climate and Disaster Resilience.

A detailed report of IAG's commitments and progress can be found on the Safer Communities section of www.iag.com.au and within the **2021 Annual Review and Safer Communities Report**

KEY PROGRESS IN FY21

Climate and disaster resilience

IAG's research data shows climate change is a key risk to its insurance business due to the increased social and financial impacts it will have on communities in Australia and New Zealand. IAG has continued to manage this risk through increasing its understanding of climate risks, strengthening governance of climate issues and further embedding climate considerations into core operations. The detail of this can be found in IAG's fourth Taskforce on Climate-related Financial Disclosures aligned disclosure at www.iag.com.au.

Key progress includes:

- Continuing IAG's commitment to manage its climate impacts by maintaining Scope 1 and 2 carbon neutrality since 2012 and by including a new commitment of net-zero investment portfolio emissions by 2050, in line with the Paris Agreement. This commitment sits alongside a continued reduction in Scope 1 and 2 emissions, with a 15% reduction from FY20 to FY21.
- Continuing to share IAG's expertise and collaboration through co-chairing and contributing to the development of the Australian Sustainable Finance Institute's (ASFI) Roadmap. To support the implementation of the Roadmap, IAG has become the first founding member of the newly created permanent ASFI body and IAG's CFO Michelle McPherson will join the newly created permanent Board. In addition, IAG actively contributed to the New Zealand Sustainable Finance Forum and the development of its Roadmap.

Carbon neutral since 2012

Published second edition of Severe Weather in a Changing Climate

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11. SAFER COMMUNITIES

- IAG also published the second peer-reviewed edition of *Severe Weather in a Changing Climate*, in partnership with the US-based National Center for Atmospheric Research. At an industry level, IAG plays an active role in the Insurance Council of Australia's Climate Change Action Committee and related subcommittees.
- Helping IAG customers and communities understand risk and take action to reduce it through NRMA's First Saturday campaign. The campaign sets achievable risk reduction tasks each month and is influencing behaviours with 1 in 4 people surveyed taking action and customers signing up to 149,000 risk reduction task reminders.
- Working with partners to improve community resilience through continuing work with the Australian Red Cross, SES, NSW RFS and GIVIT. IAG's community partners have added reach and expertise to the First Saturday campaign, as well as a potential reach of 7.49m for disaster awareness and preparedness campaigns in partnership with SES and Red Cross.

Responsible and Ethical Business

Throughout FY21 IAG has focused on strengthening the governance of environmental and social issues by ensuring policies and commitments are fit for purpose. This included:

- Launching the Social and Environmental Framework which outlines IAG's commitments to managing social and environmental risks, including human rights;
- The refreshed Code of Conduct and Ethics, which launched with mandatory training for all IAG employees. This included reference to key commitments in the Social and Environmental Framework; and
- Launching the Responsible Investment Policy, which outlines IAG's commitments to manage ESG related risks and opportunities within its investment portfolio.

In March 2021 IAG published its first Modern Slavery Statement, which details the activities taken to identify, assess and mitigate modern slavery risks in its operations and supply chain. Detail of progress will be included in IAG's FY21 Modern Slavery Statement due to be published by the end of 2021. These refreshed policies and frameworks and the Modern Slavery Statement can be found in the *Codes and Policies* section at www.iag.com.au.

Published first Modern Slavery Statement

Community Connection

IAG has continued to find opportunities to connect its people to purpose through engagement with community programs and partners.

Progress continues on IAG's Indigenous Engagement Strategy, including IAG's Reconciliation Action Plan (RAP), with the majority of actions due to be completed by the time our current RAP comes to an end in February 2022. IAG's 2022-2024 RAP is currently being developed in partnership with Reconciliation Australia.

In New Zealand, IAG launched its He Rautaki Māori (Māori Engagement Strategy) which targets four outcomes to help lift Māori prosperity and wellbeing.

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Please note that information previously included in Appendices A to D (Brand Portfolio, Business Snapshot, Key Relationships, Geographical & Product Diversification) is available in IAG's Corporate Profile and can be located at the following link at IAG's corporate website:

https://www.iag.com.au/about-us/what-we-do

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

ACCC	Australian Competition and Consumer Commission
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
CAPITAL NOTES	Capital Notes were issued by IAG in December 2016 and are quoted as IAGPD on the ASX.
CASH EARNINGS	IAG defines cash earnings as net profit/(loss) after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of IAG's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.
CASH ROE	IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles.
CLAIMS HANDLING EXPENSES	Those administration costs incurred in the investigation, assessment and settlement of a claim.
COMBINED RATIO	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
COMMON EQUITY TIER 1 CAPITAL (CET1)	The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.
CREDIT SPREAD	The credit spread is the difference between the average yield to maturity of a portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.

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DEFERRED ACQUISITION COSTS (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DISCOUNT RATE	In accordance with Australian Accounting Standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.
DRP	Dividend Reinvestment Plan, where shareholders receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
EPS	Earnings per share.
EXCHANGE COMMISSION	A fee, comprising fixed and variable components, paid under a quota share agreement by a reinsurance company to a ceding insurer to cover administrative costs, acquisition expenses and access to the underwriting profits of the ceded business.
EXPENSE RATIO	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.
FIRE SERVICE LEVIES	Fire service levies are taxes on insurers to assist government funding for fire and emergency services. In Australia, where they remain (the Emergency Services Levy (ESL) in NSW and the Fire Services Levy (FSL) in Tasmania (commercial property lines only)), they are an expense of the insurer, rather than government charges directly upon those insured. In these instances, the insurer is responsible for paying these levies, usually in arrears, and they are included in GWP and expenses for reporting purposes.
FRANKING CREDITS	Also known as an imputation credit, a franking credit is a type of tax credit that allows Australian companies to pass on tax paid to shareholders. The benefit to a shareholder is that franking credits can be used to reduce Australian income tax paid on dividends received. IAG also receives franking credits from its Australian equity investment portfolio.
GICOP	General Insurance Code of Practice
GROSS EARNED PREMIUM	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
GROSS WRITTEN PREMIUM (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.

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IFRS	International Financial Reporting Standards.
IMMUNISED RATIO	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
INSURANCE MARGIN	The ratio of insurance profit to net earned premium.
INSURANCE PROFIT	Underwriting result plus investment income on assets backing technical reserves.
LIABILITY ADEQUACY TEST (LAT)	Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the writedown of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability.
LONG TAIL	Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.
LOSS RATIO	The ratio of net claims expense to net earned premium.
MER	Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.
NATURAL PERILS	Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.
NATURAL PERILS ALLOWANCE	The natural perils expense forecast to be incurred within a specified period of time based upon previous experience and management judgement, which is reflected in the pricing of related insurance products for the same period.
NATURAL PERILS EXPENSE	Losses arising from natural perils after deducting any applicable reinsurance recoveries.
NET CLAIMS EXPENSE	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
NET EARNED PREMIUM (NEP)	Gross earned premium less reinsurance expense.
PCA	Prescribed Capital Amount, as defined by APRA under its LAGIC regime.

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PROBABILITY OF ADEQUACY (POA)	The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency.
QUOTA SHARE	A form of reinsurance in which an insurer cedes an agreed percentage of every risk it insures that falls within a class or classes of business, subject to a reinsurance treaty.
RECOVERIES	The amount of claims recovered from reinsurers, third parties or salvage.
RESERVE MOVEMENTS	Prior year reserve movements refer to the change in the ultimate cost of claims incurred to the previous balance date. These changes arise when, on the basis of emerging experience, claim numbers or loss costs are considered to differ from the actuarial assumptions inherent in the prior estimate for outstanding claim liabilities.
RISK FREE RATE	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.
RISKS IN FORCE	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
ROE	Return on equity, being net profit/(loss) after tax divided by average equity attributable to owners of the company.
SHAREHOLDERS' FUNDS	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
SHORT TAIL	Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
SME	Small-to-medium-sized enterprise.
TECHNICAL RESERVES	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.

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TEPLA	Transitional Excess Profits and Losses Adjustment (TEPLA) is the adjustment required to ensure profit recognition under the CTP scheme in NSW is in line with the legislated capped level. In accordance with accounting requirements, TEPLA is treated as part of levies (alongside fire service levies), within underwriting expenses.
TREASURY SHARES	Ordinary IAG shares held by the company. These are primarily for the purposes of meeting share-based remuneration plan obligations.
TSR	Total shareholder return.
UNDERLYING MARGIN	IAG defines underlying margin as the reported insurance margin adjusted for: • Net natural peril claim costs less related allowance; • Prior year reserve releases changes; and • Credit spread movements. The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.
UNDERWRITING	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
UNDERWRITING EXPENSES	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
UNDERWRITING PROFIT/(LOSS)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
UNEARNED PREMIUM	Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.

DIRECTORY

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SECURITIES EXCHANGE LISTINGS

ASX Limited (ASX):

- Ordinary Shares (**IAG**): 2,465,100,206 on issue at 30 June 2021
- Capital Notes (**IAGPD**): 4,041,265 on issue at 30 June 2021

NZX Limited (NZDX):

- Unsecured Subordinated Convertible Notes due 2043 (**IAGFB**): NZ$350m outstanding at 30 June 2021

KEY DATES

Final dividend – ordinary shares	
• Ex-dividend date	17 August 2021
• Record date	18 August 2021
• DRP record date	19 August 2021
• Payment date	22 September 2021
Payment date for IAGPD and IAGFB quarterly distributions	15 September 2021
Annual General Meeting	22 October 2021
Payment date for IAGPD and IAGFB quarterly distributions	15 December 2021
Announcement of half year results to 31 December 2021	11 February 2022*
Interim dividend – ordinary shares	
• Ex-dividend date	15 February 2022*
• Record date	16 February 2022*
• DRP record date	17 February 2022*
• Payment date	24 March 2022*
Payment date for IAGPD and IAGFB quarterly distributions	15 March 2022
Payment date for IAGPD and IAGFB quarterly distributions	15 June 2022
Announcement of full year results to 30 June 2022	12 August 2022*

**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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