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Financial results

Full year ended 30 June 2021

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FY21 financial results | 11 August 2021

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FY21 results overview

- Underlying financial results sound and resilient
- Solid cash earnings of \$747m supporting dividend payments
- Addressing challenges that contributed to FY21 reported loss
- New organisational structure to embed accountability and drive performance
- Progress towards achieving our 3-5 year goals

FY21 highlights

Sound performance, guidance reintroduced

Improving GWP growth, resilient underlying business performance

- 3.8% GWP growth, largely rate driven
- Lower underlying margin of 14.7% vs. 16.0% in FY20
- Steady 2H21 underlying margin trends against 1H21 across each division
- Excluding COVID-19 impacts, one-off costs and different large loss experience in New Zealand

Reported margin recovered to 13.5%

- Further net reserve strengthening
- Perils above allowance but down on FY20
- Positive credit spread impact

Net loss after tax of (\$427m) reflects impact of unusual items

- BI pre-tax charge of \$1.15bn unchanged from 1H21

- Additional \$238m pre-tax charge for customer refunds, increasing the component for uncertainty in the provision to \$100m
- \$51m pre-tax charge to address prior year payroll compliance matters
- Proposed sale of AmGeneral triggered impairment of ~\$90m, with expected ~\$150m improvement in regulatory capital position expected on completion

Cash earnings of \$747m and Cash ROE of 12.0%

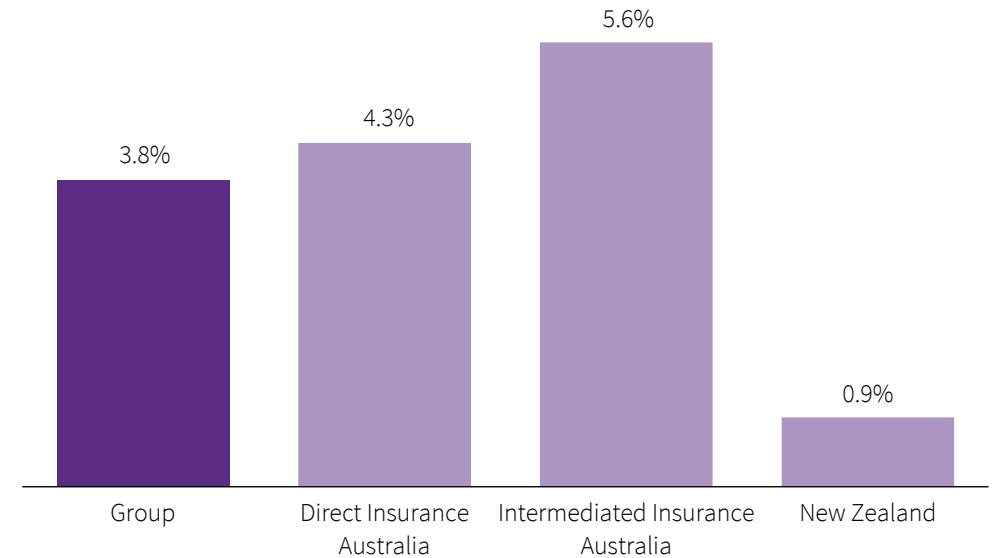
- Excludes unusual items
- FY21 dividend of 20cps (2H21: 13cps)

Reintroduction of guidance for FY22

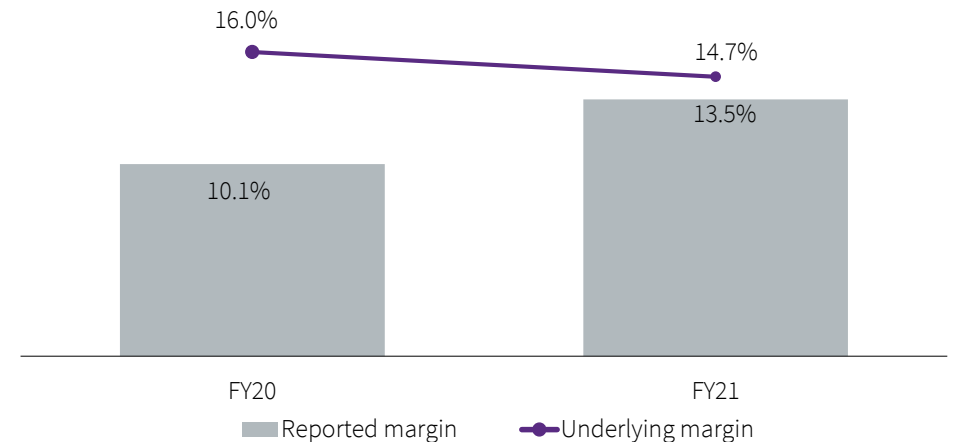
- Forecast 'Low single digit' GWP growth*
- Forecast reported insurance margin 13.5-15.5%*

* Refer to "Appendix 1: FY22 Guidance and Outlook" for more detail

FY21 GWP growth



Insurance Margin



Divisional highlights

Solid underlying trends

DIA

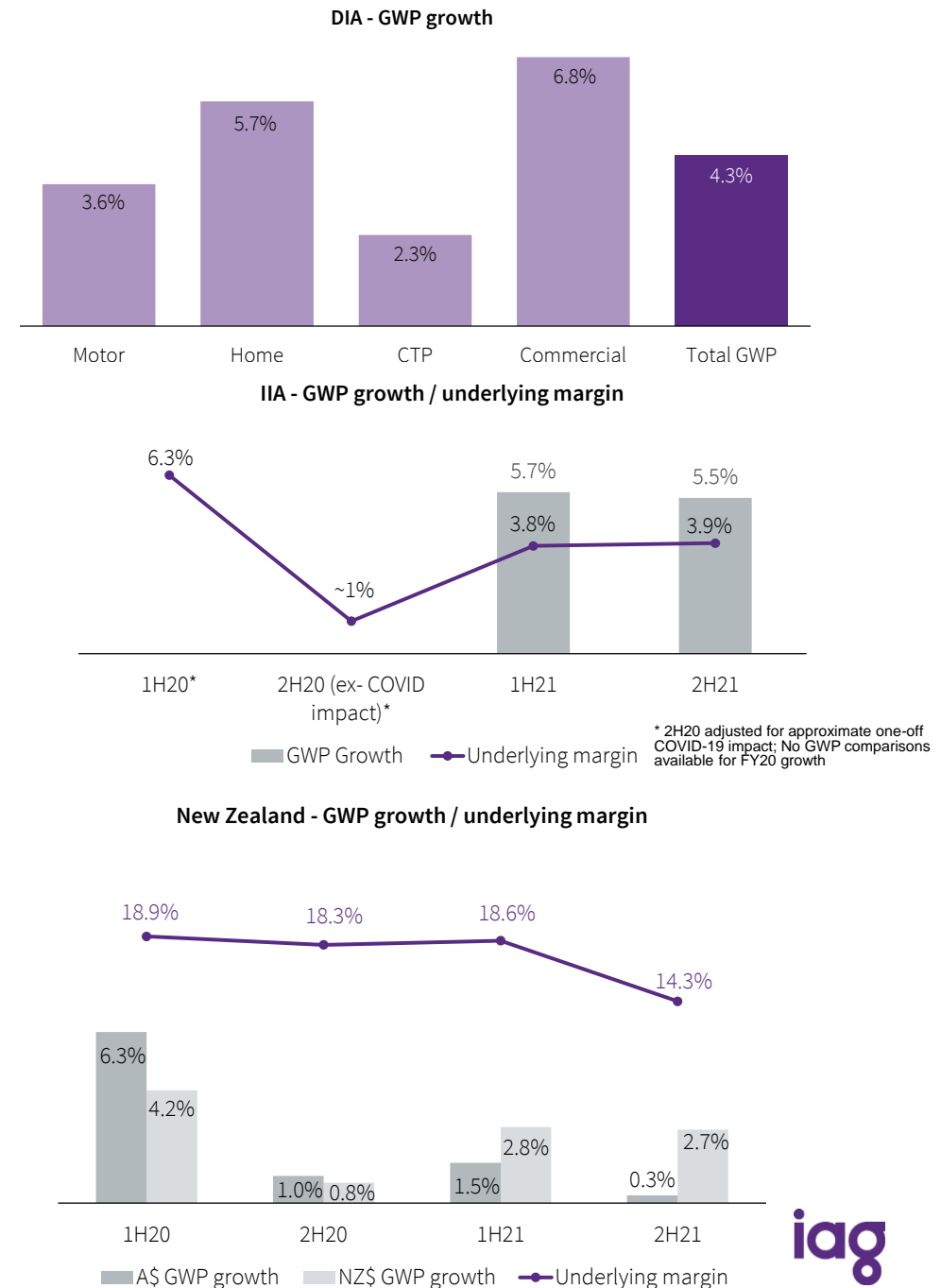
- GWP growth of 4.3%, included volume growth of over 1%
- Rate increases in line with claims inflation and underlying perils allowance increase
- Strong underlying margin of 21.4%
- ~2% lower than FY20 on normalised basis following increase in costs and lower investment yield

IIA

- Strong GWP growth of 5.6%, driven by average rate increases of ~8%
- Underlying margin improvement to 3.9% in FY21, steady across both halves
- Reported margin affected by perils experience and reserve strengthening

New Zealand

- Solid NZ\$ rate-driven GWP growth of 2.8%
- Normalised margins remain healthy
- Lower underlying margin in 2H21 of 14.3% reflects property consolidation costs and normalised large loss experience compared to benign 1H21



Financial summary

	FY20	FY21	Change	
GWP (\$m)	12,135	12,602	3.8%	▲
Insurance profit ¹ (\$m)	741	1,007	35.9%	▲
Underlying insurance margin ² (%)	16.0	14.7	130bps	▼
Reported insurance margin (%)	10.1	13.5	340bps	▲
Shareholders' funds income (\$m)	(181)	306	nm	
Net profit/(loss) after tax (\$m)	435	(427)	nm	
Cash earnings (\$m)	279	747	nm	
Diluted cash EPS (cps)	12.12	28.51	nm	
Dividend (cps)	10.0	20.0	nm	
Cash ROE (%)	4.5	12.0	nm	
CET1 multiple	1.23	1.06	17pts	▼

(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 the FY21 Investor Report 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 in excess of 1% of net earned premium. Comparative periods have not been restated to incorporate the definition from FY21.

GWP growth

Solid momentum continued

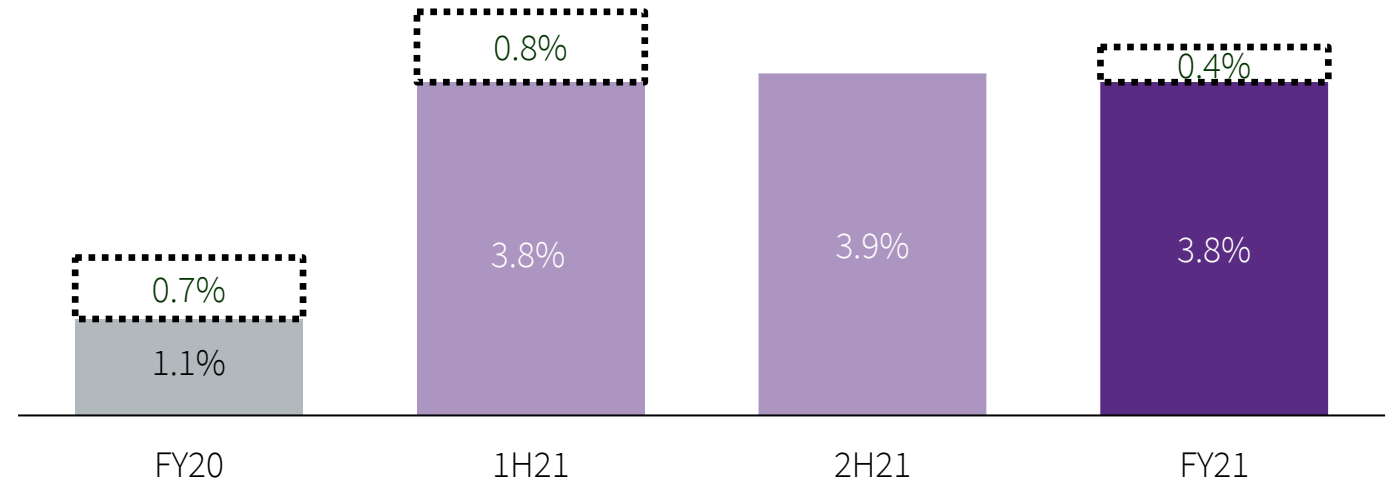
Growth of around 4% across FY21

- Achieving strong rate increases where required

Recent trends

- ~\$50m adverse COVID-19 impact in 1H21, with no material COVID-19 impact experienced in 2H21
- DIA growth driven by volume and higher rates across short-tail personal lines
- Average rate increases ~8% with stable retention in IIA
- Ongoing rate increases, strong retention and sound new business in New Zealand
- Application of price increases to counter:
 - Claims inflation
 - Underperforming portfolios
 - Medium-term trend of higher peril allowance

GWP growth



Estimated COVID-19 impact

Underlying margin

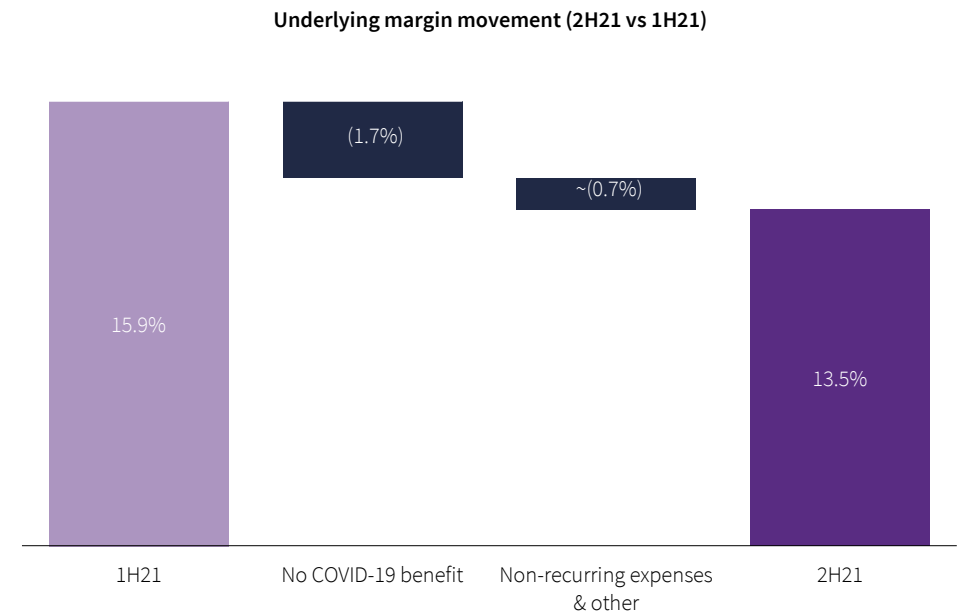
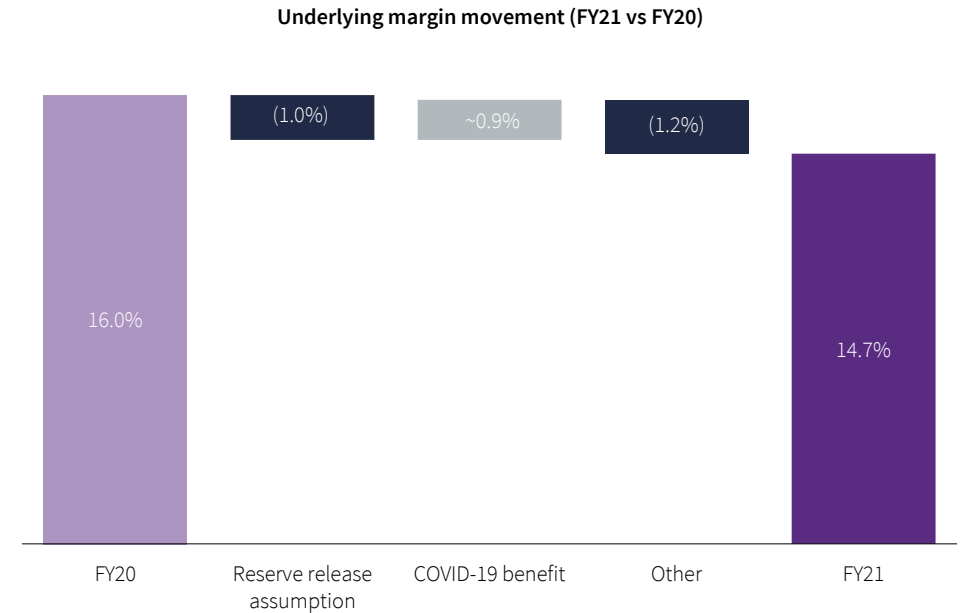
Motor frequency benefits mainly a 1H21 feature

Lower FY21 underlying margin of 14.7% (FY20: 16.0%)

- ~\$60m-70m net COVID-19 benefit in FY21 (vs. neutral impact in FY20)
- Nil reserve release assumption (vs. 1% in FY20)

2H21 underlying margin of 13.5%

- Negligible impact from COVID-19 (~1.7% of NEP in 1H21)
- Non-recurring operating model expenses and property consolidation costs in New Zealand
- Reversal of relatively benign large loss experience in New Zealand during 1H21
- Lower reinsurance costs
- Adjusted 2H21 underlying margin ~14%



Underlying claims

Encouraging claims trends

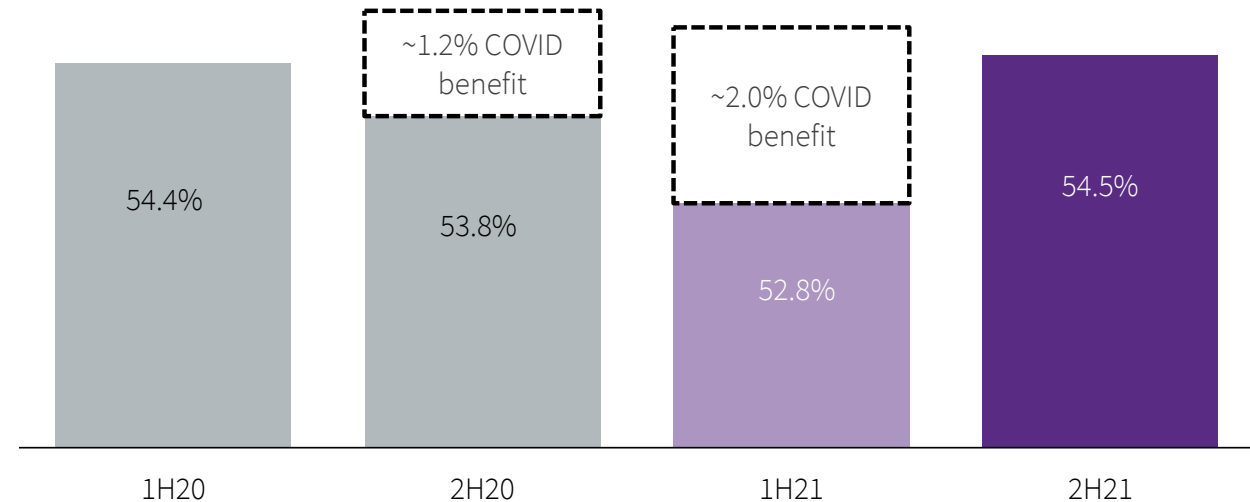
Underlying claims ratio of 54.5% in 2H21

- Represents working claims
- Excludes peril costs, prior year reserve changes and discount rate effects
- Improving performance in recent halves ex-COVID-19 impacts

Offsetting influences supporting underlying claims performance

- Positive earn-through of higher rates, particularly in short-tail commercial and personal lines in IIA
- Lower average home claim costs in Australia, although higher in New Zealand reflecting a change in the mix of claim types
- Some upward pressure in DIA average motor claims, mainly Victoria
- Deterioration in commercial long tail classes compared to FY20

Group adjusted underlying claims ratio



Expenses

Relatively flat underlying trend 2H21 vs 1H21

Expenses

- Gross underwriting expenses ex levies up 5.6% vs FY20
- Increase in compliance, governance and corporate insurance costs; one-off costs from operating model and property consolidation (~\$30m pre-quota share)
- Excluding one-offs and COVID-19 related expenses, 2H21 relatively flat vs 1H21

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

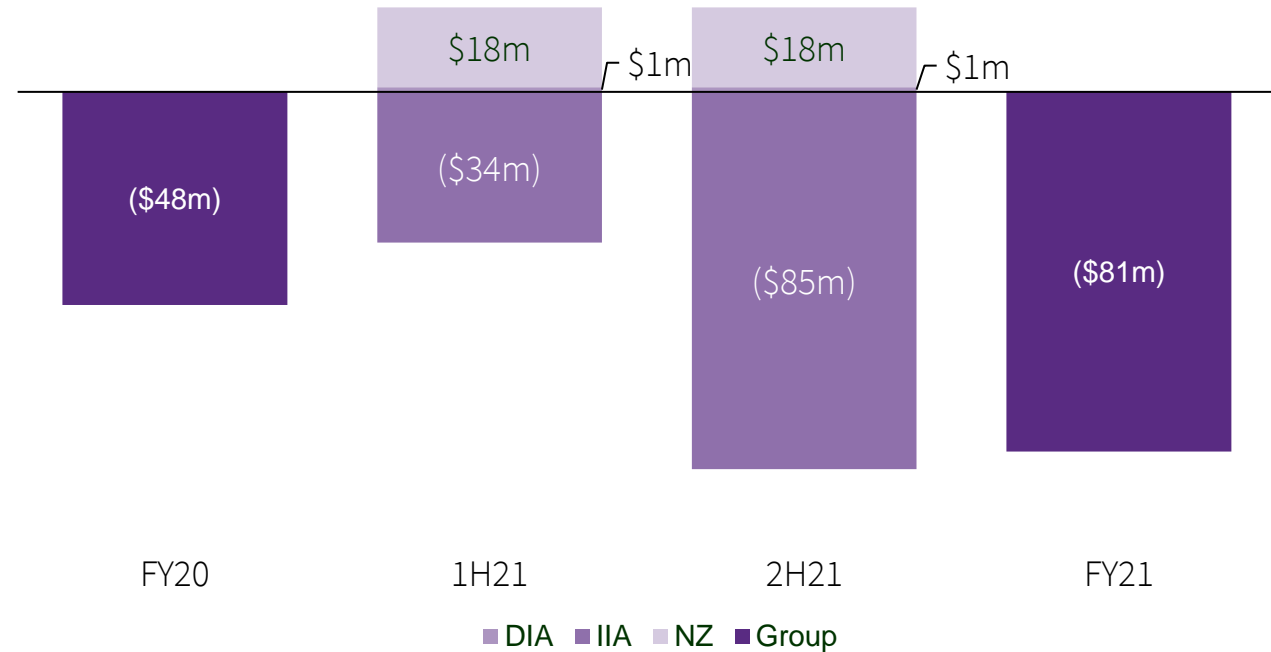
Prior period reserving

Further net reserve strengthening

\$81m net strengthening (1.1% of NEP)

- Systemic issues in IIA where mixed economic conditions have enhanced focus on personal injury compensation and increased average claim sizes
 - ~\$75m related to liability classes
 - ~\$50m from professional risks
 - ~\$20m in workers' compensation
- Offset by positive settlements in commercial and personal short tail ~\$25m
- Negligible net release in DIA (FY21: \$2m)
- Short-tail New Zealand releases (FY21: \$36m)

Prior period reserve movements



Natural perils

Adverse FY21 perils outcome

FY21 net perils cost of \$742m

- \$84m above allowance
 - Unfavourable outcome in DIA and IIA, with New Zealand perils slightly below allowance
- Assisted by ~\$100m of aggregate cover recoveries in 1H21

~\$100m increase in FY22 perils allowance to \$765m

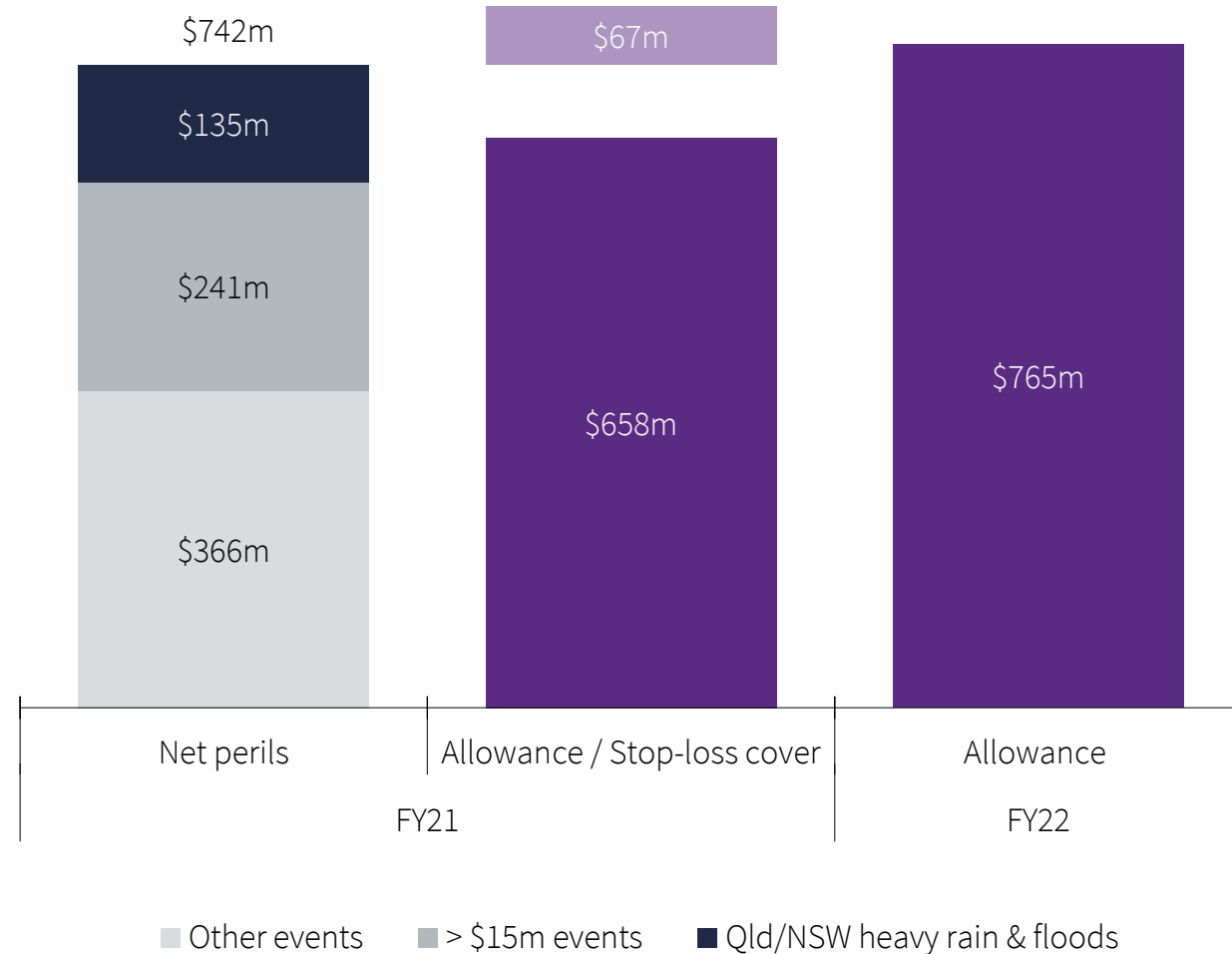
- FY21 benefitted from additional reinsurance from calendar year 2020 aggregate cover

No FY22 stop loss cover purchased

- Reflects commercial considerations

Post-quota share MER of \$169m from 1 July 2021

Natural perils vs allowance



Additional key matters

\$200m pre-tax charge in the second half

Business interruption provision

- No change to provision since 20 November 2020
- Extensive scenario testing of the adequacy of the provision
- Comparison of actuarial estimates to client advised loss estimates for lodged claims
- Stronger economic recovery
- Impact of short duration lockdowns in 2H21

Customer refund provision

- Ongoing proactive review of pricing systems and processes
- Finalised “identification phase” of the review
- Additional charge of \$80m to increase the component for uncertainty to \$100m
- Payments of ~\$100m made to date
- Remediation program will complete over the next 12 to 24 months

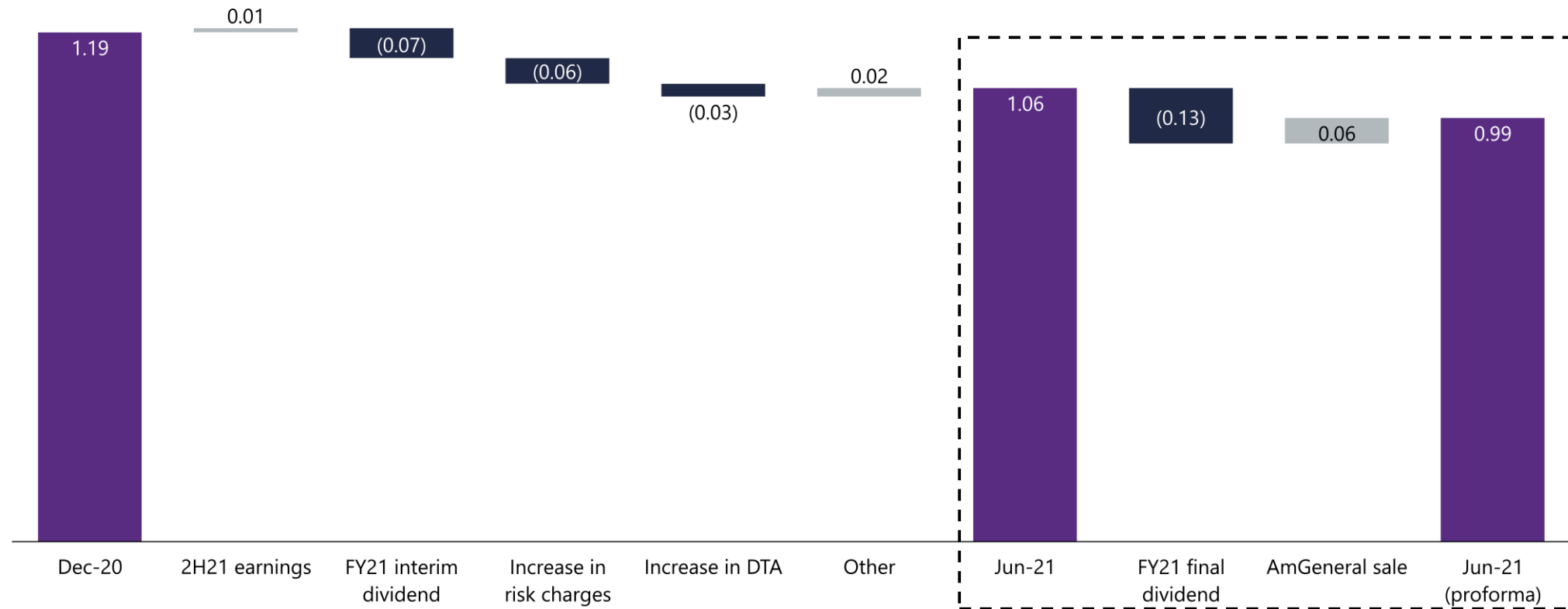
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- No net exposure - \$437m gross provision and reinsurance recoveries

	1H21 A\$m	2H21 A\$m	FY21 A\$m
NET CORPORATE EXPENSE			
Business interruption provision	1,150	-	1,150
Customer refund provision	75	163	238
Payroll compliance provision	-	51	51
Swann class action	68	(28)	40
Other	17	14	31
Total pre-tax net corporate expense	1,310	200	1,510
Tax effect on net corporate expense	(394)	(56)	(450)
Net corporate expense after tax	916	144	1,060

Capital

Above mid-point of target benchmark range at 30 June 2021



- Increase in risk charges is attributed to a higher asset risk charge (from higher investment assets), a higher insurance risk charge (stemming from increased claims reserves) and a slightly higher insurance concentration risk charge

Dividend

Return to payment of interim and final dividend

Cash earnings of \$747m

- Excludes net corporate expense and amortisation & impairment
- Cash ROE of 12.0%

FY21 DPS of 20cps, unfranked

- Represents ~66% of cash earnings
- Committed to 60-80% payout ratio
- Limited capacity to frank eligible distributions over the medium term

	FY21 A\$m
CASH EARNINGS	
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%

Recap: Strategic focus

Purpose

We make your world a safer place

Focus



**Grow with
our customers**



**Build better
businesses**



**Create value
through digital**



**Manage
our risks**

Strategy

Create a stronger, more resilient IAG

Approach

Deliver unparalleled personalised service when our customers need us the most

Focus on underwriting expertise, active portfolio management and pricing excellence

Create connected experiences that seamlessly assist and reward our customers as they unlock the value of our network

Actively manage capital and risk in our business so we can continue to manage the risks in our customers' lives

Outcomes

More customers, more products and greater scale


Stable earnings over time

Better customer experiences at a lower cost

Disciplined execution, enhanced accountability and appropriate returns

Delivering our strategy


Execution is underway, with momentum building



**Grow with
our customers**



**Build better
businesses**



**Create value
through digital**



**Manage
our risks**

Sample of Initiatives

FY21 Progress

- 75,000 more direct brand customers across Australia & New Zealand, growing at ~2x the population growth rate (>1% customer growth)
- Customer Loyalty Platform implemented in WA, SA and NT as part of NRMA Insurance online rollout
- Closed 53 AMI branches in New Zealand, with more customers choosing to engage via phone and online

- First tranche of pricing capability uplift delivered
- Intermediated portfolio performance improving as targeted remediation progresses
- Motorserve (AU) and Repairhub (AU/NZ) sites expanded as IAG's rapid repair model successfully gets customers cars back on the road quicker

- Strategic policy platform launched in WA, SA and NT for NRMA Insurance Home and Motor products
- 50+ legacy technology assets decommissioned
- 110,000 hours of efficiency returned to the organisation through robotic process automation

- Group wide Risk Academy launched and ServiceNow risk management system implemented
- Family & Domestic Violence Policy published with continued support for customers experiencing vulnerability
- Culture program launched – The IAG Way – uniting employees around a ready for anything and risk intelligent mindset

FY22 Focus

- At least system growth for DIA personal lines through targeted propositions and improved customer experience
- Continue NRMA Insurance brand rollout
- Personalised marketing and increased customer engagement

- Targeted remediation of IIA portfolios
- Continued resolution of legacy issues, pricing capability and product information uplift
- Launch Insurance Academy to further uplift insurance capabilities

- Additional personal lines products deployed on the strategic policy platform
- Investment in IIA policy platforms to facilitate partner integration
- Increased leverage of automation and use of digital channels across sales, service and claims

- Actively manage capital within target ranges, renegotiate quota share arrangements and refinance subordinated debt
- Implement regulatory change agenda and respond to changing requirements across accountability, remuneration and climate change
- Embed The IAG Way and Risk Culture Standard to create a flexible, dynamic and risk aware workforce

FY22 guidance¹

Forecast 'Low single digit' GWP growth

- 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
- Largely rate-driven increases in New Zealand

Forecast reported insurance margin

13.5-15.5%

Note (1) Refer to "Appendix 1: FY22 Guidance and Outlook" for more detail

Margin impact

FY21 reported margin

13.5%

FY22 net underlying improvement

- An improvement in the underlying margin on a like-for-like basis
- Mainly driven by earn through of rate increases, particularly in IIA where underlying profitability is expected to continue recovering

~100bps up to
~300bps
improvement

No material COVID-19 impacts

(Nil expectation, vs. ~\$60-70m benefit in FY21)

(~90bps)

Non-recurring costs

(From operating model and property consolidation)

~30bps

No prior period reserve movements

(Nil expectation, vs. -1.1% in FY21)

110bps

Natural perils in line with allowance

(FY21 above allowance)

110bps

No investment market movement

(FY21 positive from narrowing of spreads)

(100bps)

Increased perils allowance drag

(\$107m increase in net allowance to \$765m)

(~150bps)

FY22 reported margin guidance

13.5-15.5%

Our Value Proposition

Delivering strong shareholder returns



Our strengths

- Leading brands
- Scale and reach
- Superior customer experience
- Engaged people
- Innovative capital platform



Our strategy

- Grow with our customers
- Build better businesses
- Create value through digital
- Manage our risks



Key value drivers

- Customer growth
- Claims management
- Productivity
- Reinsurance and capital



Our aspirations

- **“Create a stronger, more resilient IAG”**
- Sustainable dividends
- Top quartile TSR

Cash ROE 11.5% ¹
Reported Margin 15.1% ¹

DIA/NZ customer growth ²

\$250m IIA insurance profit ²

Productivity initiatives ²

Cash ROE 12-13% ³
Reported Margin 15-17% ³

Notes (1) Three-year average over FY18 to FY20 (2) Refer to Appendix 1: FY22 Guidance and Outlook for more detail (3) Reported margin required to generate current ROE target based on balance sheet settings and SHF asset allocation at 30 June 2021. It also assumes no reserve releases and peril costs in line with allowances.

Appendix 1: FY22 Guidance and Outlook

The following detail on FY22 Guidance and Outlook has been provided in the FY21 Investor Report:

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 \$250m¹ 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.

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