This release has been authorised by the IAG Board

Financial results

Half year ended 31 December 2022

Nick Hawkins
Managing Director and
Chief Executive Officer

Michelle McPherson
Chief Financial Officer

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Further information, including IAG's business structure, portfolio and partnerships is available on IAG's website at https://www.iag.com.au/about-us/what-we-do

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Overview

Nick Hawkins

Managing Director and
Chief Executive Officer

1H23 results
overview

GWP
$7.1bn
Strong rate-driven growth

Reported margin
8.5%
Prior period reserve strengthening, higher perils vs. allowance, credit spread benefit

Underlying margin [1]
10.7%
Increasing inflation impacts partially offset by premium increases and higher investment yield

Net profit after tax
$468m
Includes post-tax $252m reduction in the Business Interruption provision

Dividend
6cps
Payout ratio of 68% of NPAT adjusted for Business Interruption provision release

FY23 Guidance
GWP growth around 10%
Reported margin around 10%
2H23 expected margin improvement from earn-through of premium increases, claims initiatives and moderating inflation

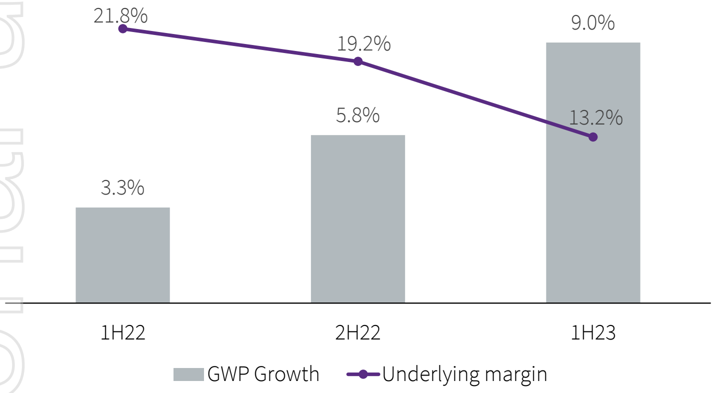
(1)IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; prior period reserve releases or strengthening and credit spread movements.

Divisional highlights

Direct Insurance Australia (DIA)

- Over 100k growth in customer numbers
- Strong GWP growth (Motor 8%, Home ~13%)
- Adverse short-tail claims trends resulting in decline in underlying margin
- COVID-19 frequency benefits in 1H22

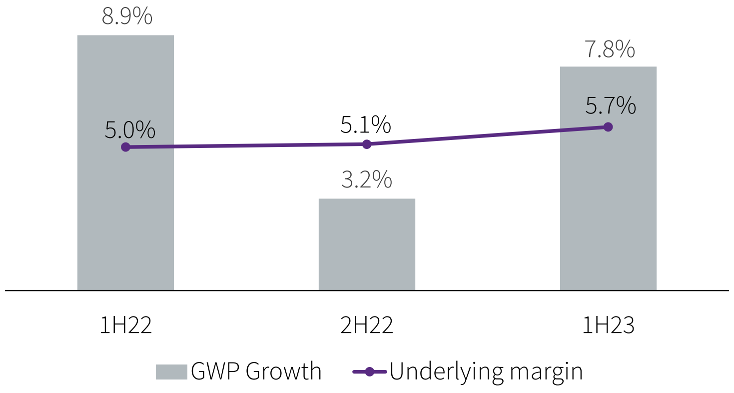
GWP growth / underlying margin



Intermediated Insurance Australia (IIA)

- ~11% average rate increases
- Underlying GWP growth ~14% impacted by portfolio exits and transfers in personal lines
- Improved underlying margin, assisted by higher investment yields

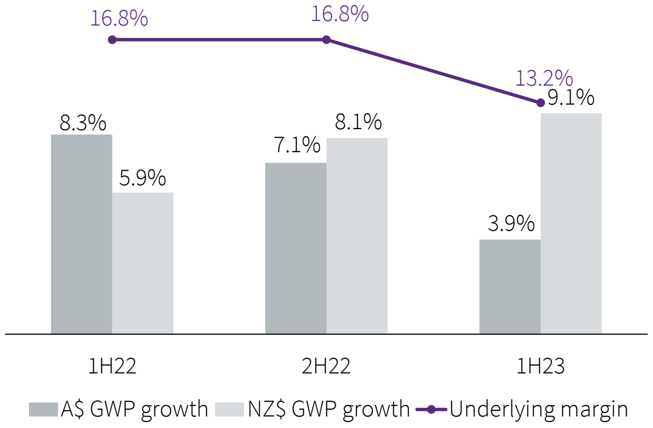
GWP growth / underlying margin



New Zealand

- Strong local currency GWP growth over 9%
- Significant FX impact - A$ GWP growth reduced by over 500bps
- Inflationary pressures resulting in decline in underlying margin

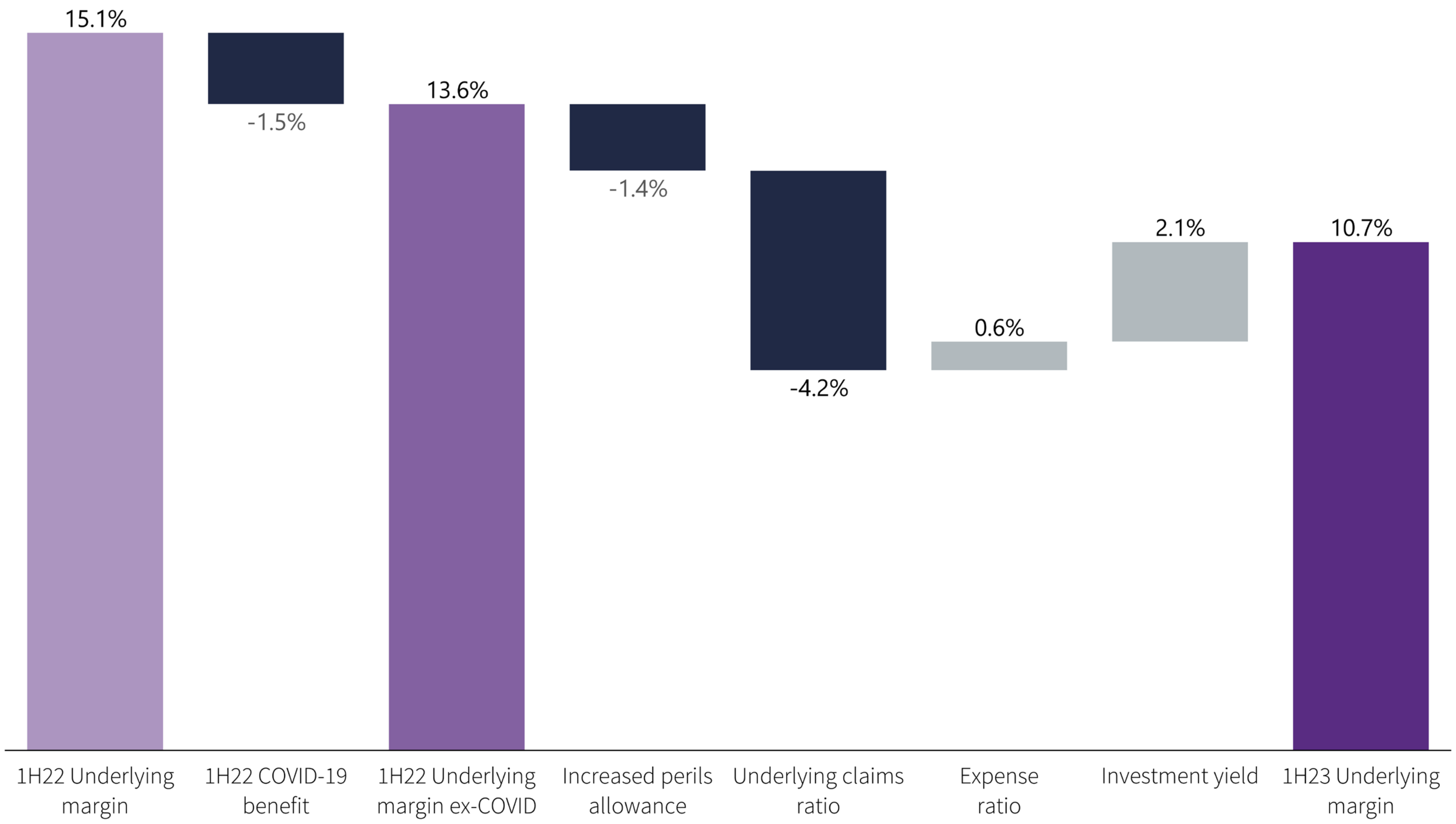
GWP growth / underlying margin



Underlying margin impacted by claims inflation

- COVID-19 benefit in 1H22 comparative
- Underlying claims ratio driven by inflationary impacts with a timing lag on earn-through of premium increases
- Benefits from lower expense ratio and higher investment yields

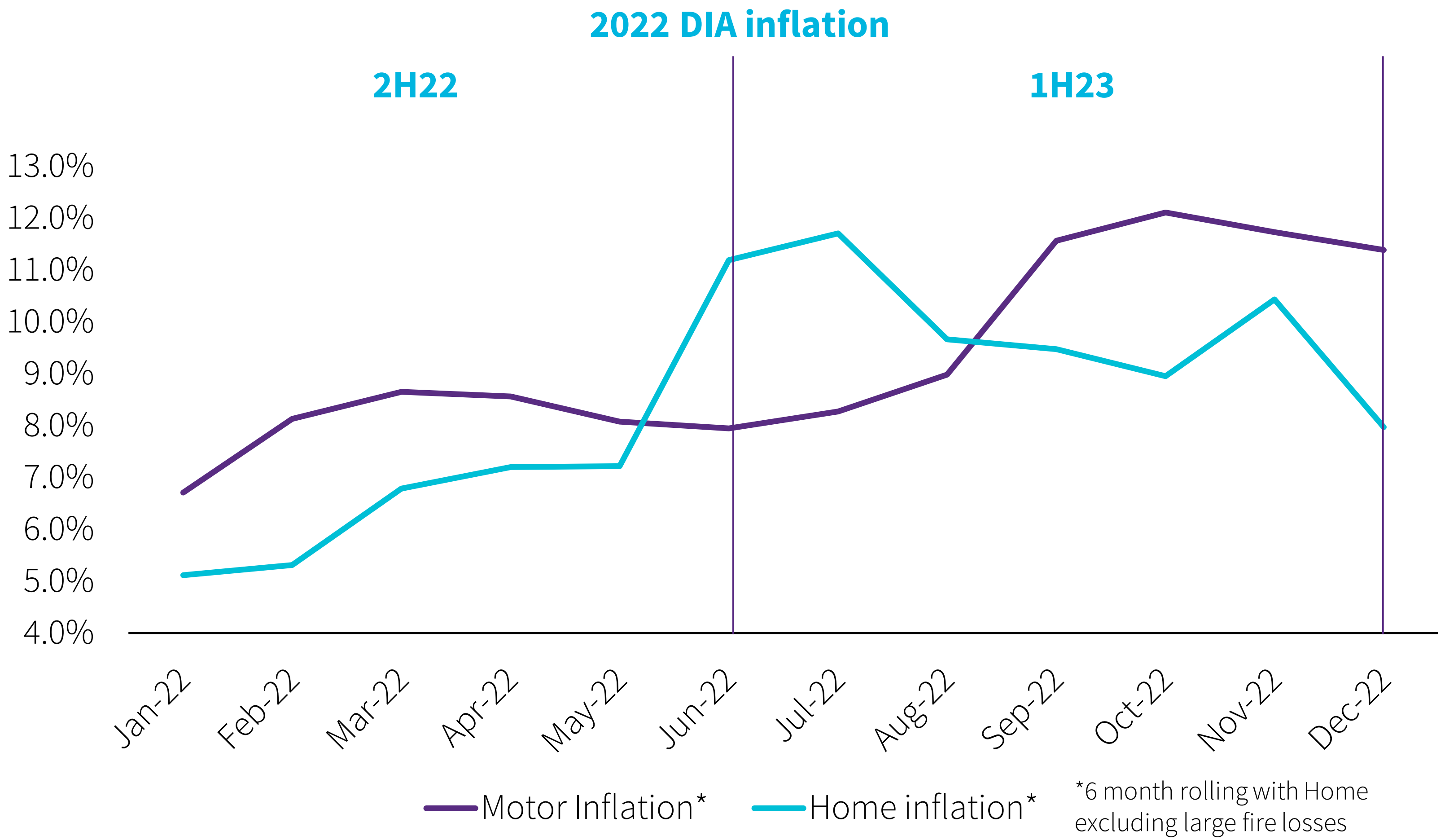
Underlying margin movement (1H22-1H23)



Impact of inflation increased during 1H23

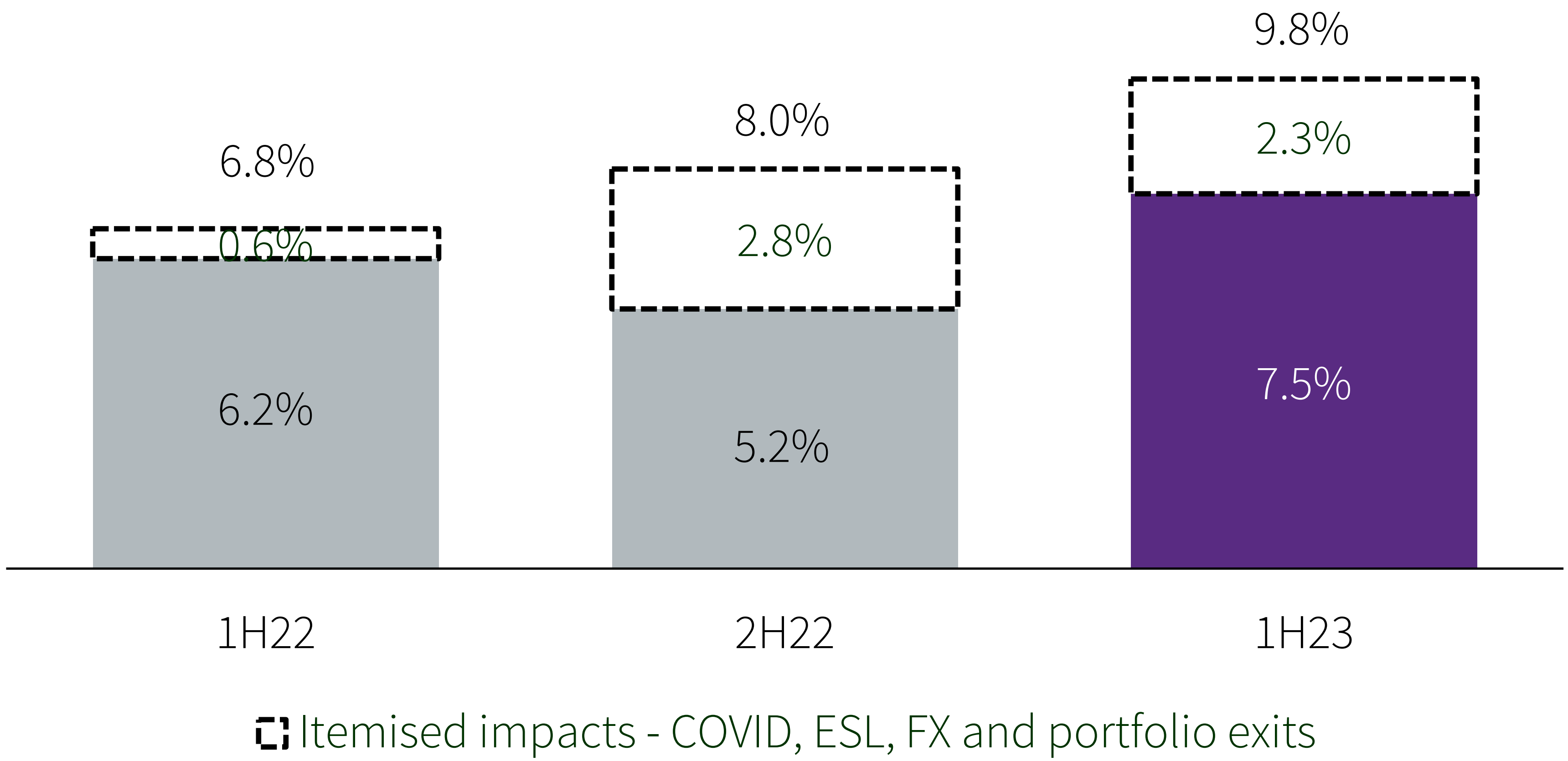
Progressive increase in inflation, especially towards the end of the calendar year

Driven by supply chain issues and an increase in parts and labour costs



*6 month rolling with Home excluding large fire losses

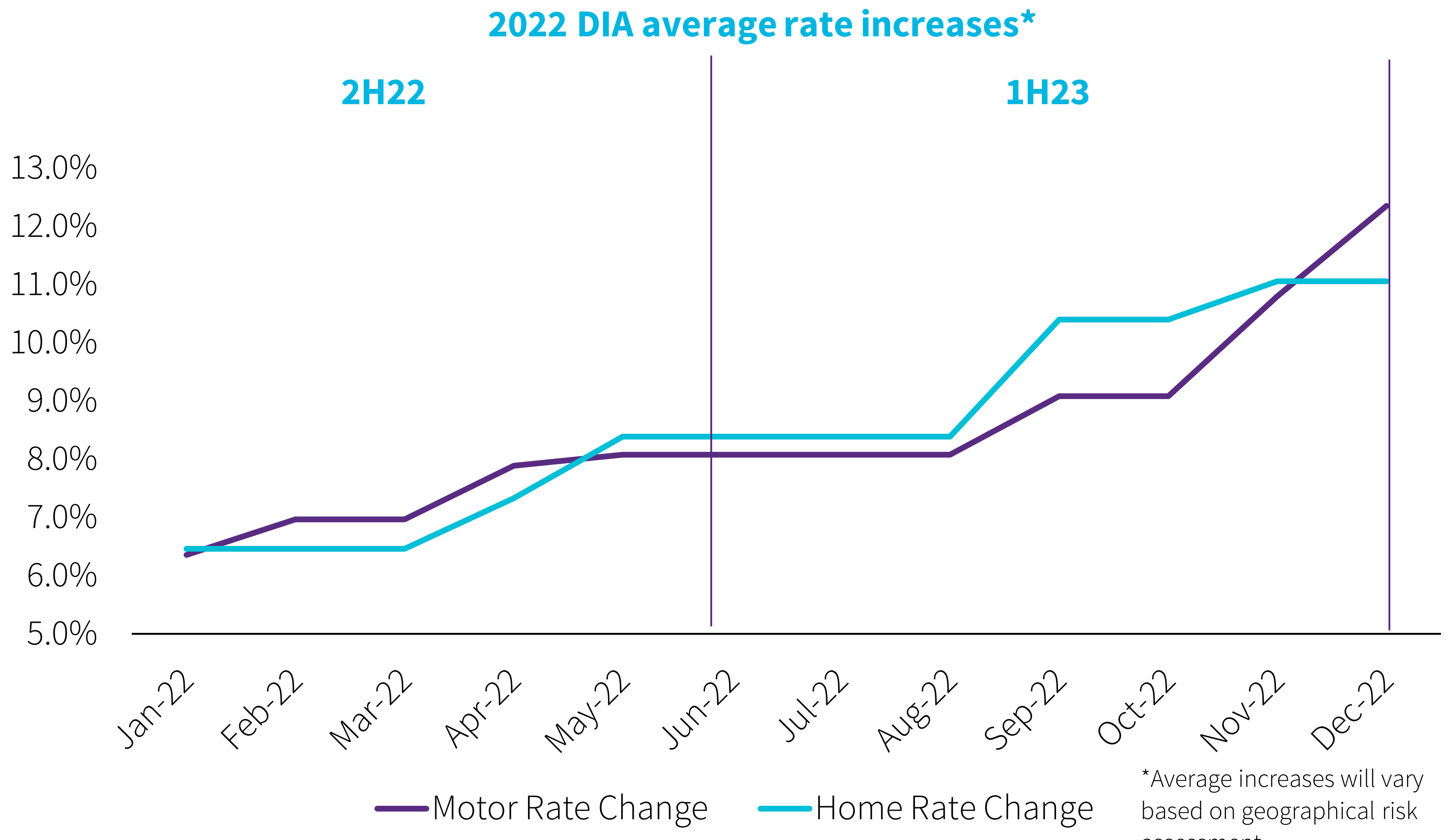
1H23 GWP growth



Actively increasing rates to reflect higher inflation

Average rate increases in response to higher claims inflation and in anticipation of higher perils and reinsurance costs

Further rate increases in 2H23



*Average increases will vary based on geographical risk assessment

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Financials

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Michelle McPherson

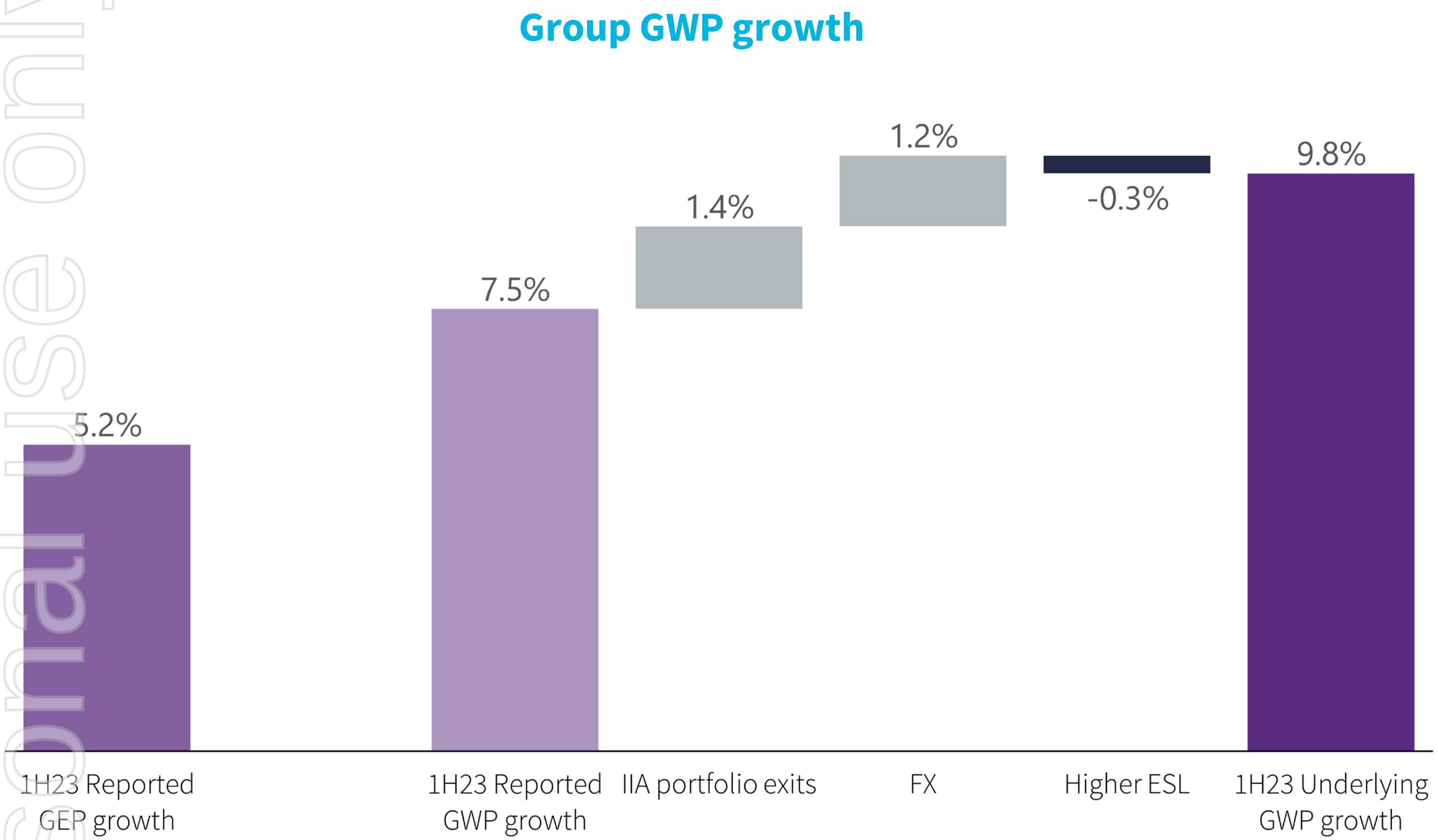
Chief Financial Officer

Financial summary

	1H22	1H23	Change
GWP ($m)	6,570	7,061	7.5%
NEP ($m)	3,963	4,113	3.8%
Insurance profit[1] ($m)	282	350	24.1%
Underlying insurance margin (%)	15.1	10.7	440bps
Reported insurance margin (%)	7.1	8.5	140bps
Net (loss)/profit after tax ($m)	173	468	170.5%
Cash earnings ($m)	176	223	26.7%
Dividend (cps)	6.0	6.0	-
CET1 multiple	1.02	1.11	9pts

[1]The 1H23 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 1H23 Financial Report (Appendix 4D). A reconciliation between the two is provided on page 6 of the 1H23 Investor Report and on page 3 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's 1H23 net profit after tax is the same in this document and in the Financial Report.

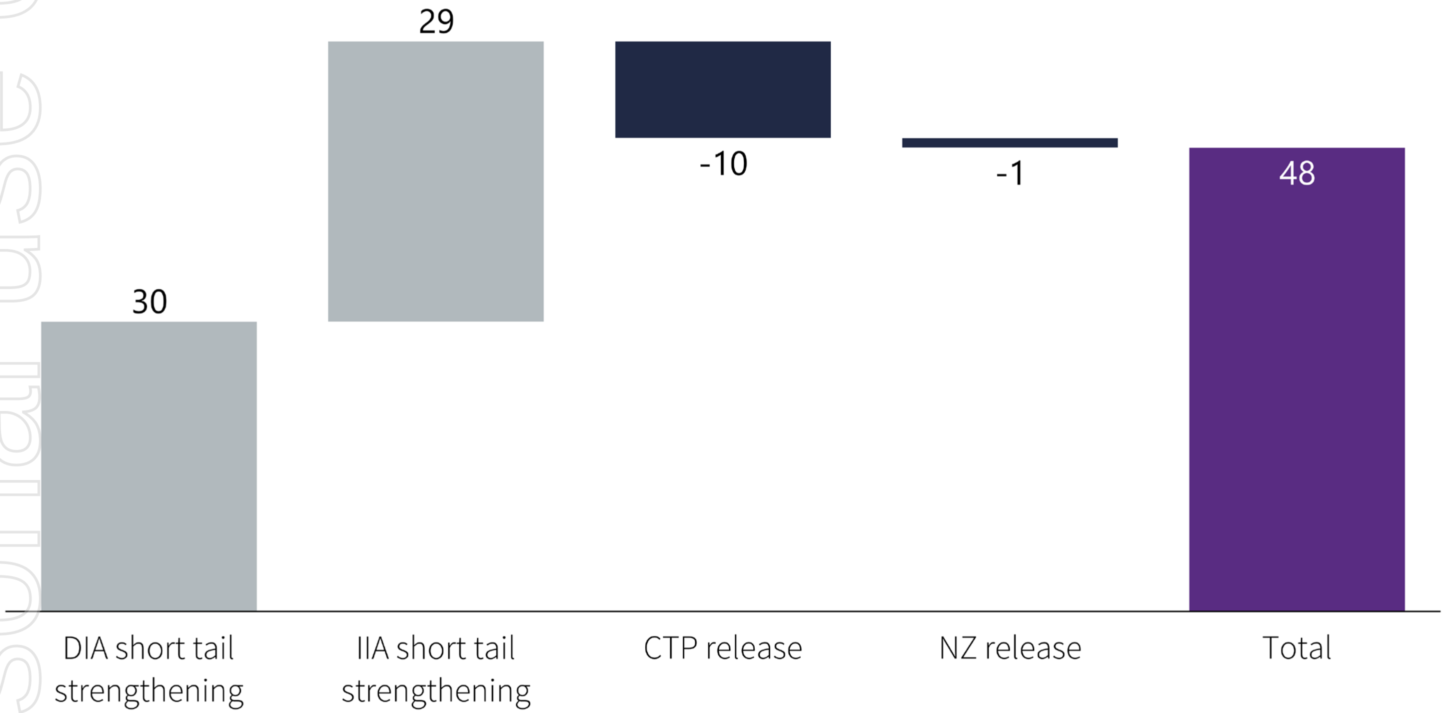
Strong rates driving GWP growth with some portfolio and FX impacts



- Strong rate rises to counter higher inflation, perils expectation and reinsurance costs
- ~2% volume growth in DIA, with strong personal lines growth in WA and Victoria
- Reported growth impacted by personal lines portfolio exits in IIA and deprecation of $NZ currency
- 1H23 Gross Earned Premium growth of 5.2% with higher earn through in 2H23

Inflation driving reserve strengthening in Australian short-tail personal lines

Prior period reserve movements ($m)



Short-tail reserve strengthening

- Higher inflation in motor and home across DIA and IIA
- Adverse development of prior period perils events

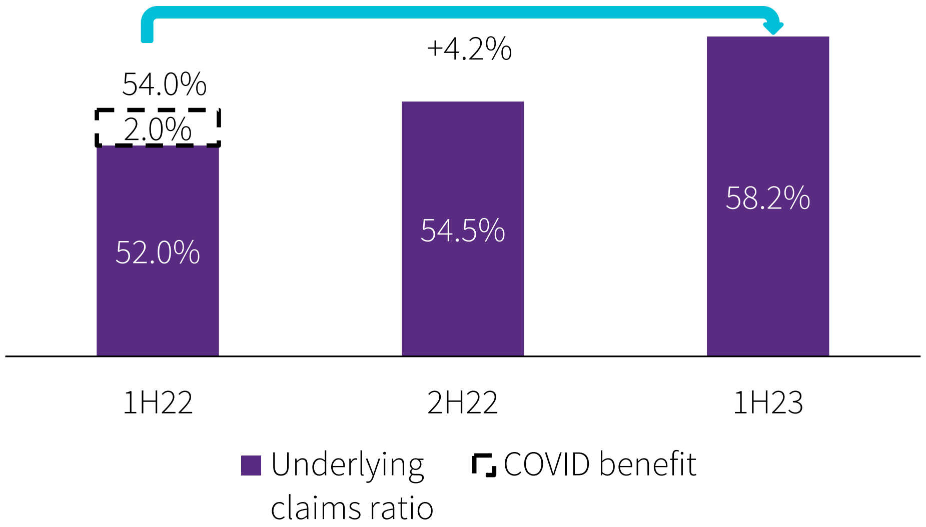
Long-tail reserves

- Net releases from CTP
- Negligible movements in commercial long-tail classes such as liability, professional risks and workers' compensation

Claims trend driven by higher inflation in home and motor

Reported loss ratio

LOSS RATIO	1H22	2H22	1H23
Underlying claims ratio	**52.0%**	**54.5%**	**58.2%**
Discount rate adjustment	(1.3%)	(5.9%)	(1.3%)
Reserve strengthening	0.9%	3.4%	1.2%
Natural perils above allowance	7.6%	1.4%	1.7%
Natural perils allowance	9.6%	9.7%	11.0%
Reported loss ratio	**68.8%**	**63.1%**	**70.8%**



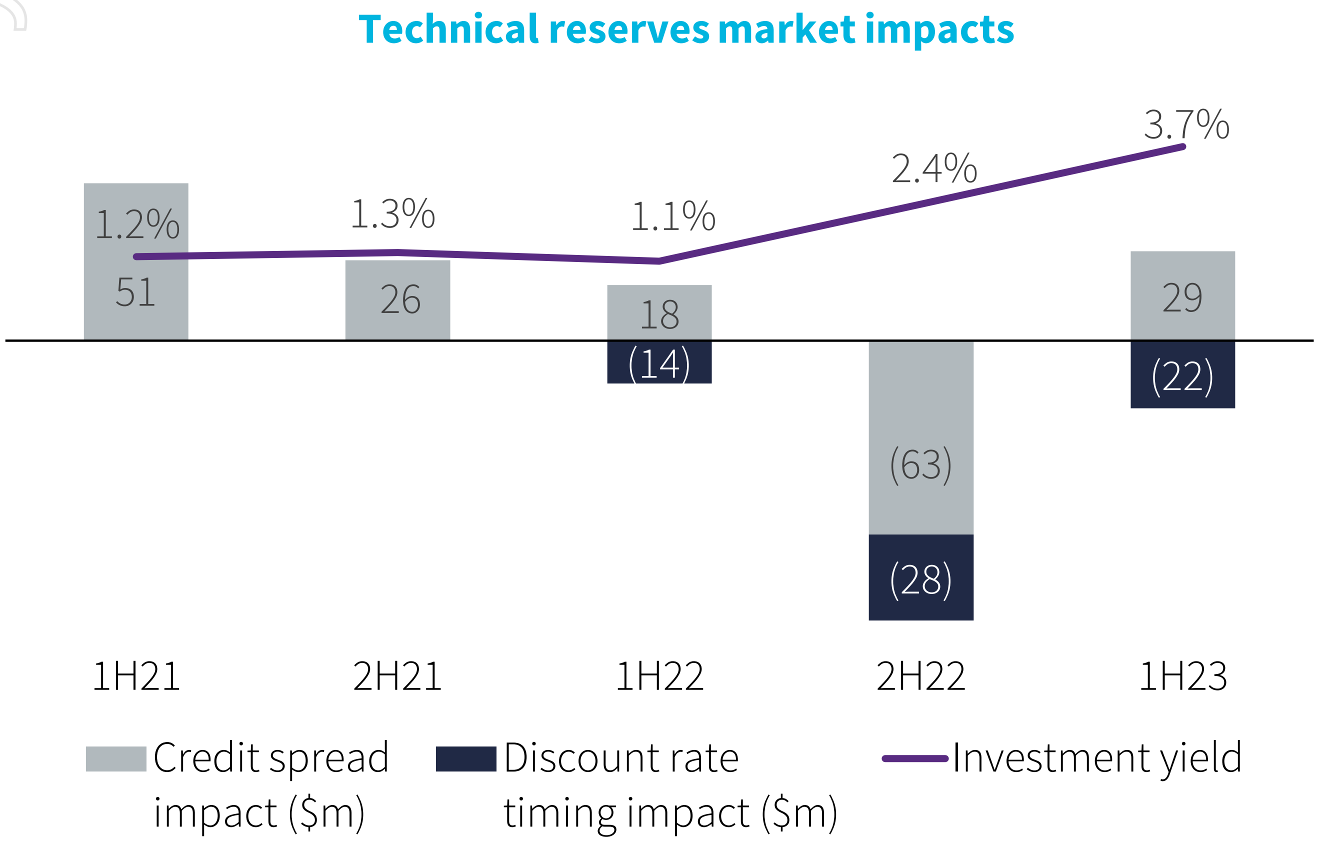
Higher average home and motor claims from inflationary and supply chain pressures

- Motor total losses
- Motor parts & labour inflation
- Motor third-party & towing/hire car
- Home fire large losses

Lag of earn-through of premium rate increases

Greater volume of claims in the system following perils events

Higher yields drive **investment performance**



~$12bn Investment Portfolio

~$7.2bn **technical reserves** invested in fixed interest & cash - Gain of $89m

- Driven by higher investment yield and narrowing of credit spreads

~$5.0bn **shareholders funds** - Gain of $72m

- De-risked following disposal of hedge fund investments
- Growth asset weighting of ~23%

~80bps improvement expected in **investment yield** in 2H23 vs 1H23

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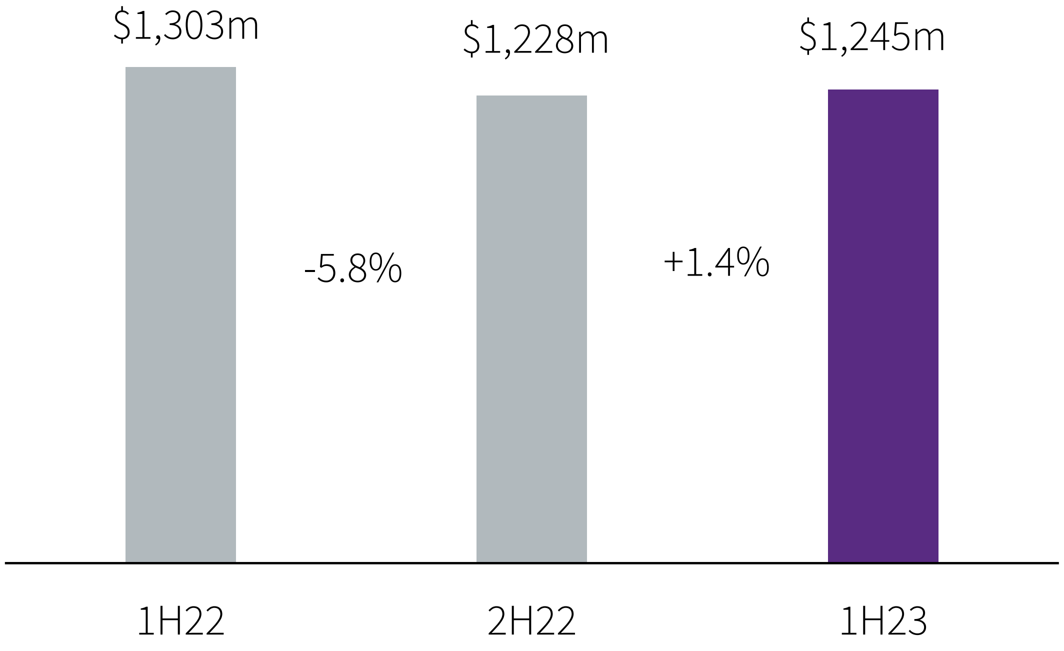
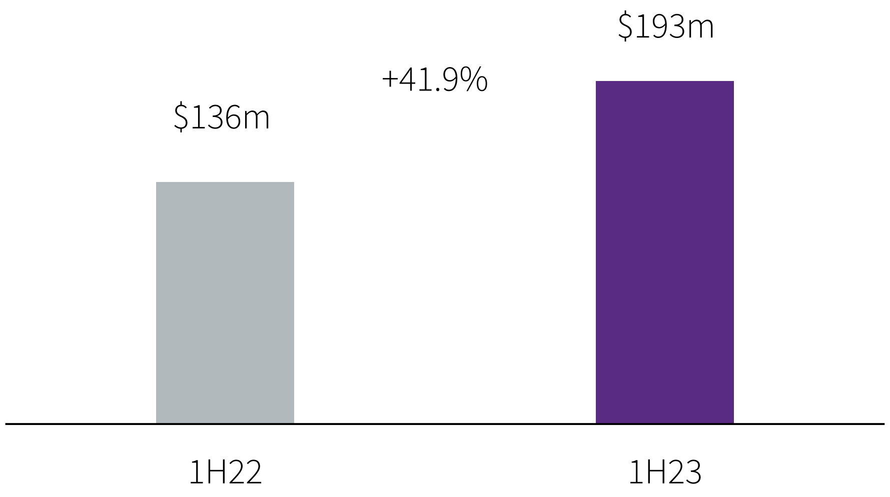
Managing expenses while **spending to transform the business**

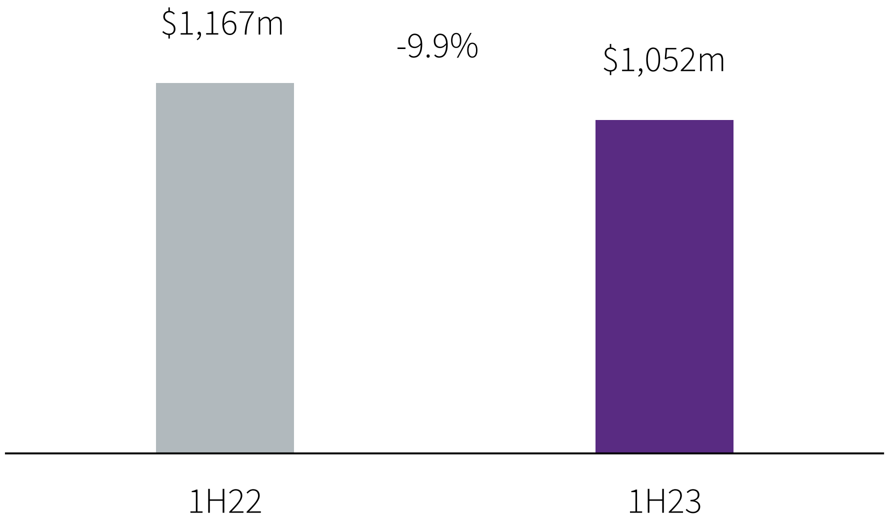
Gross operating costs



Costs to transform



Costs to maintain

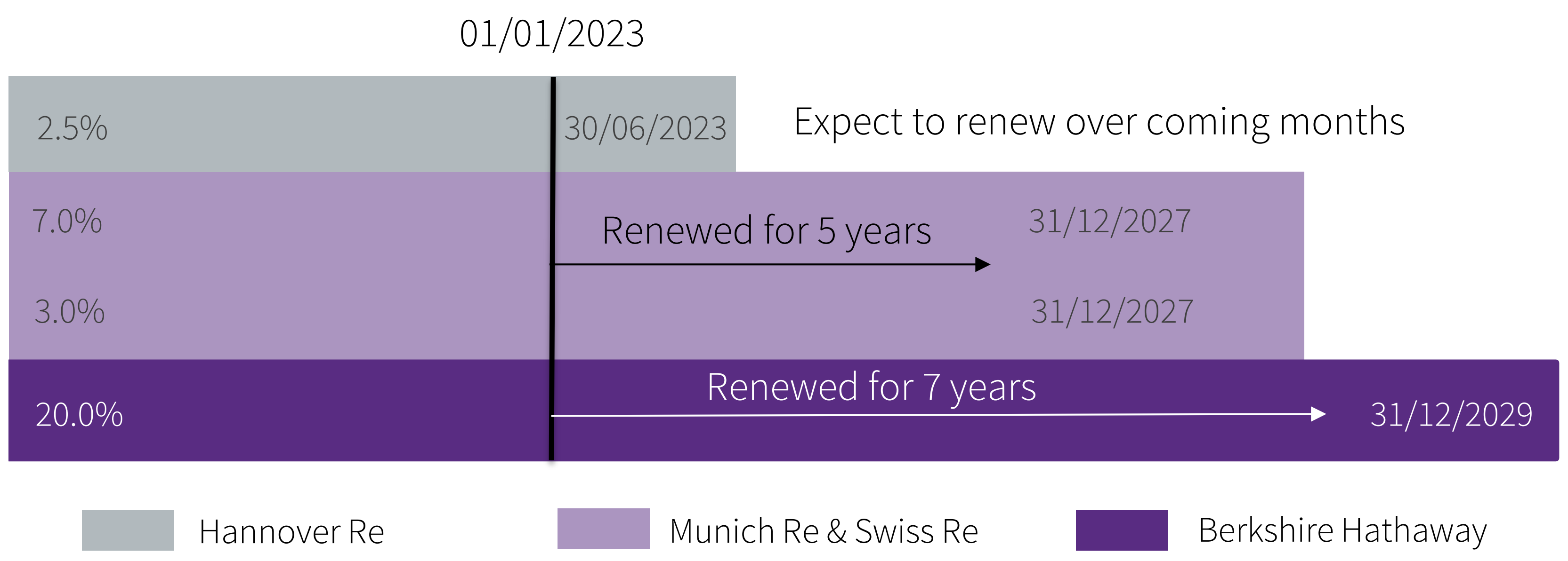


Whole-of-account quota shares arrangements provide capital and reinsurance capacity

Renewal of quota share arrangements achieving materially consistent financial outcomes

Renewal discussions of 2.5% deal expected to be completed over coming months

32.5% Quota share arrangements as at 1 Jan 2023



Auckland flooding results in **increased FY23 perils expectation**

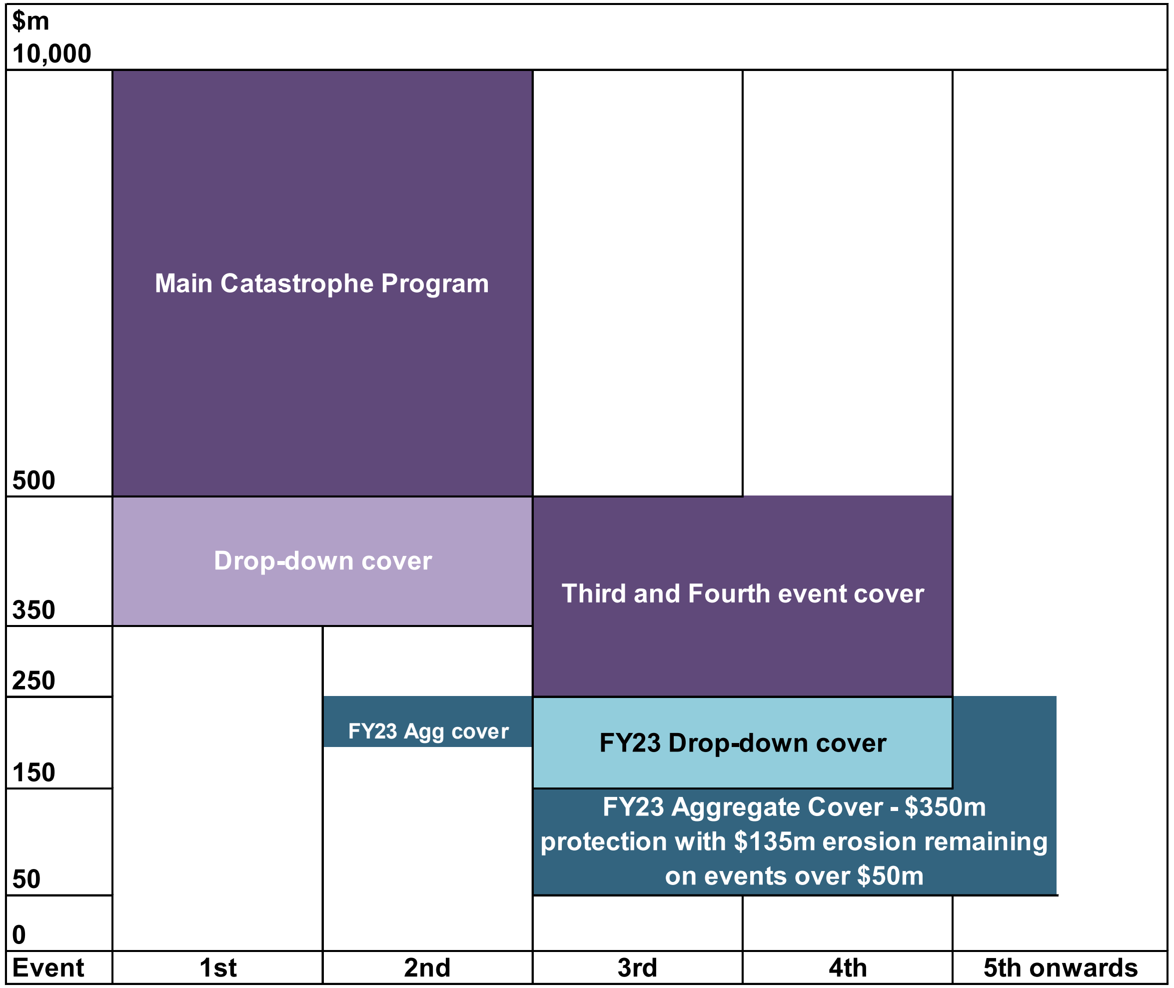
$524m
1H23 perils
$70m above allowance

$1,145m
FY23 perils estimate
Increased from $909m following Auckland event in January 2023

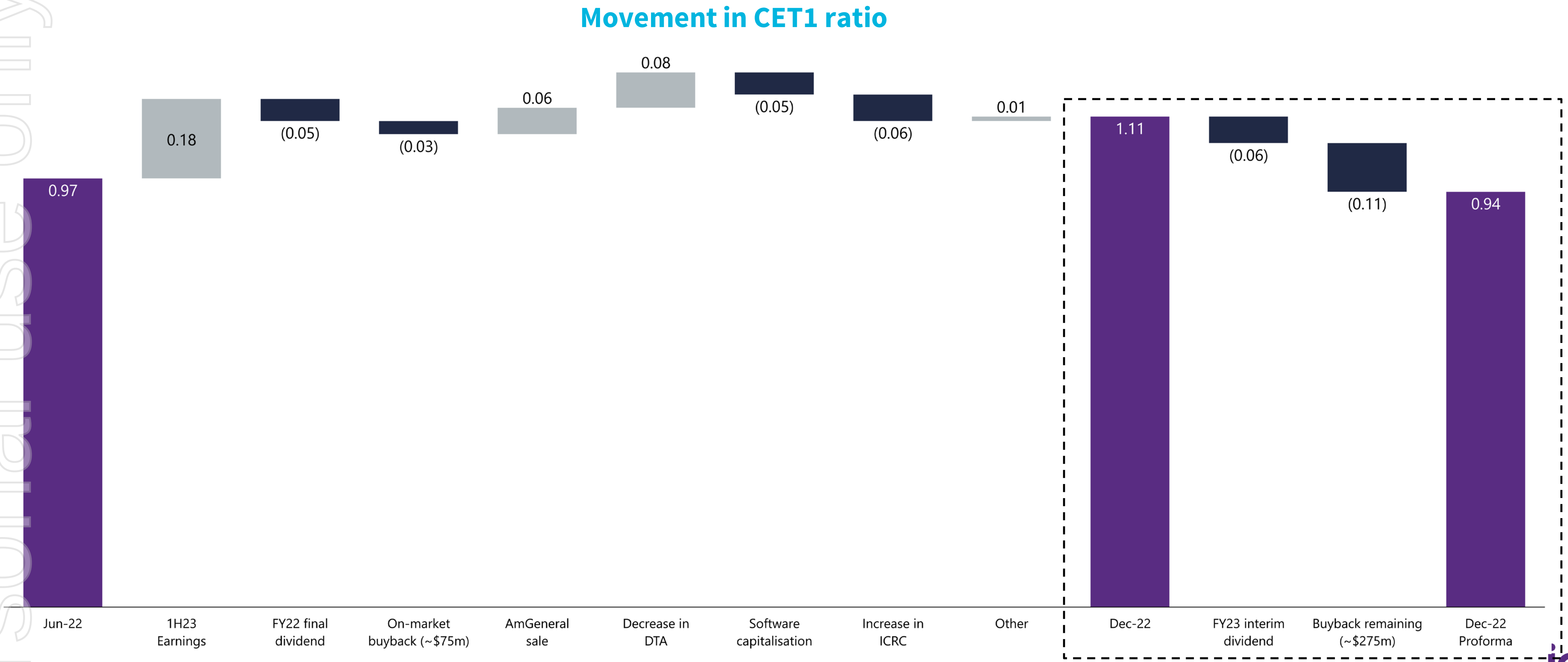
$350m
FY23 aggregate cover
~$365m erosion of $500m deductible following Auckland event

$192m
Maximum Event Retention
Additional cover reduces MER to $108m for a NZ event

Gross catastrophe reinsurance



Strong capital position within target range on pro-forma basis



Value Proposition and Guidance

Nick Hawkins

Managing Director and
Chief Executive Officer

Increased GWP growth and **improved 2H23 margin**

FY23 guidance[1]

GWP growth around 10%

Reported margin of around 10% implies 2H23 reported margin of 11-12%

	Margin impact	
1H23 Reported Margin		8.5%
o Prior period reserve strengthening	~120bps	
o Natural perils above allowance	~170bps	
o Credit spread benefit	(~70bps)	
1H23 Underlying Margin		10.7%
2H23 Underlying Margin improvement drivers o NEP incl. reinsurance reinstatement premium o Claims initiatives and moderating inflation o Investment income	~450bps-500bps	
Increase in FY23 natural perils estimate to $1,145m	(~400bps)	
Implied 2H23 reported margin		11-12%
FY23 reported margin guidance		Around 10%

(1) Refer to Appendix 1: FY23 Guidance and Outlook for more detail

Our **value proposition**

Medium-term margin and ROE targets

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

DIA/NZ 1m customer growth [1]

Grow across Australia	**400K**
Capture the attention of the younger generation	**250K**
Direct SME (Australia)	**100K**
New Zealand (Consumer)	**250K**

+

Material improvement IIA

At least $250m[1] insurance profit by FY24

+

Productivity initiatives [1]

$400m of claims value

~$2.5bn gross operating costs

>80% of interactions across digital channels

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Reported ROE 12-13% [2]
Reported Margin 15-17% [2]

(1) Refer to Appendix 1: FY23 Guidance and Outlook for more detail (2) Excluding business interruption provision releases

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Appendix 1: **FY23 Guidance and Outlook**

IAG's updated guidance for FY23 is based on the 1H23 financial results and the financial impact of the Auckland flooding event, resulting in:

- Forecast GWP growth of around 10%, an increase from earlier guidance of 'mid-to-high single digit' growth. This is primarily rate driven reflecting claims inflation, higher reinsurance costs and an increased natural peril expectation. Modest volume growth and an increase in customer numbers are expected;
- A reported insurance margin of around 10%, a reduction from earlier guidance of '14% to 16%', which assumes:
  - O An improvement in the second half underlying margin based on:
    - increased net earned premium reflecting the benefit of higher premiums;
    - benefits of claims initiatives and a moderation of underlying inflation in the supply chain; and
    - expected increased underlying investment yields; partially offset by
    - a reinsurance reinstatement premium and higher commission expenses;
  - O A natural peril expectation of $1,145 million;
  - O No 2H23 material prior period reserve releases or strengthening; and
  - O No 2H23 material movements in macro-economic conditions including foreign exchange rates or investment markets.

IAG retains its aspirational goal to achieve a 15% to 17% insurance margin and a reported ROE of 12% to 13% over the medium term. These goals are based on delivery of IAG's ambitions of:

- An increase in the customer base of 1 million to 9.5 million by FY26;
- An IIA insurance profit of at least $250m in FY24;
- $400m in value from DIA claims and supply chain cost reductions on a run-rate basis from FY26;
- Greater than 80% of customer interactions across digital channels; and
- Further simplification and efficiencies to maintain the Group's cost base at around $2.5 billion.

These goals and ambitions are subject to assumptions and dependencies, including that there are no material adverse developments in macro-economic conditions and disruptions or events beyond IAG's control (for example, natural perils events in excess of IAG's allowances).

Appendix 2: Focused on **strategic execution**

Purpose | We make your world a safer place

Strategy | Create a stronger, more resilient IAG

People | Our people are the difference: bringing our purpose to life and delivering our strategy

Focus	1H23 progress	Ambitions[1]
Grow with our customers	• Customer Growth >100k in 1H23 across AU and NZ Direct brands • New distribution partnership with ANZ	• 1m additional direct customers
Build better businesses	• CGU awarded Large General Insurer of the Year (NIBA) • Enhanced IIA underwriting and portfolio management	• $250m Insurance Profit in FY24 • Broadly flat expense profile
Create value through digital	• Additional +50k policies in 1H23 on Enterprise Platform	• $400m value from Claims • >80% of interactions through digital channels • Common, core insurance platform across A/NZ • Automation and AI at scale
Manage our risks	• Quota share arrangements renewed	• Risk maturity assessed as Integrated

Medium-term goals[1]

- **15-17%** Reported Margin
- **12-13%** Reported ROE

(1) Refer to Appendix 1: FY23 Guidance and Outlook for more detail