IAG announces 1H24 results

16 February 2024

1H24 financial highlights

- GWP up 12.5% to $7.9b
- Insurance profit of $614m, up from $350m
- Reported insurance margin of 13.7%, up from 8.5%
- Underlying insurance margin of 13.7%, up from 10.7%
- Net profit after tax of $407m, down from $468m
- Up to $200m on-market share buyback
- Reaffirmed FY24 financial guidance
- Interim dividend of 10 cents per share

Financial performance

"We've achieved a solid operating first half result, with our focus on strategy execution and the momentum in the underlying business continuing to drive IAG's performance.

Our first half Gross Written Premium (GWP) growth was the strongest in nine years at 12.5% (1H23: 7.5%). The margins and underlying claims ratios in Australia and New Zealand improved, and we are on track to meet our FY24 financial guidance.

GWP growth reflected premium increases across Direct Insurance Australia (DIA), Intermediated Insurance Australia (IIA) and the New Zealand business in response to inflation pressures, higher perils, and reinsurance costs.

This was partially offset by slightly lower volumes, mainly driven by our IIA business focusing on improved underwriting and pricing. Customer retention remained high, reflecting the strength of our brands. This was recognised in the latest Brand Finance Australia 100 2024 report, where NRMA Insurance was ranked Australia's 2nd strongest brand.

Our reported insurance profit of $614m (1H23: $350m), equated to a reported insurance margin of 13.7% (1H23: 8.5%). The underlying insurance margin was 13.7% (1H23: 10.7%) with credit spread and natural perils benefits, offset by some prior period short-tail strengthening.

Net profit after tax (NPAT) was $407m, down 13% on 1H23 (1H23: $468m) which had the benefit of a $360m pre-tax business interruption (BI) claim provision release.

The increase in the expense ratio to 23.7% (1H23: 22.9%) is the result of increased commissions and government levies as well as the investments we are making to support our growth strategy, such as our Enterprise Platform rollout and IIA's Commercial Enablement technology program. The expense ratio is expected to decline in the second half of the year.

DIA, IIA and the New Zealand business all delivered solid GWP growth and improved margins. Our first half performance demonstrates IAG is a stronger and more resilient business. We have a sound reinsurance program, and our capital position is strong. As a result, today we've announced an on-market share buyback of up to $200m.

"We are well positioned to continue to play our critical role as an economic shock absorber for consumers and businesses in Australia and New Zealand, helping them when they need us most, while also delivering returns for our shareholders." – Nick Hawkins

Helping our customers

We continue to see natural perils impacting our communities. Since late November, large parts of Australia's east-coast have been devastated by major weather events. We're working hard to progress claims and get customers back on their feet quickly.

Paying claims is core to what we do. In the first half alone, we settled more than $6bn in claims (1H23: $5.45b) – that's around 730,000 claims across Australia and New Zealand.

The increased frequency and severity of natural perils, inflation, and increased reinsurance costs have flowed through to premium increases. We know this has added to our customers' cost of living pressure in a difficult economic environment. We've worked hard to minimise premium increases and continue to work with government, businesses, and communities to improve community resilience and reduce risk.

Earlier this month we participated in the Federal Government's 2022 Flood Inquiry and carefully listened to feedback from government, consumers, regulators, and community groups. We were disappointed to hear the experiences some customers had with us in the aftermath of these devastating floods.

We know we play an important role in protecting our customers when disaster strikes and are taking steps to ensure we are better prepared for large weather events in the future. This is a top priority for me and my leadership team.

Since the 2022 floods, we've increased our claims team numbers, scaled up our partner workforce, improved our triaging and claims oversight to identify vulnerable customers, expanded our regional network of tradespeople we can access at short notice, and revitalised our "all hands-on deck" program.

A stronger, more resilient IAG

Today's results show the progress we've made against our strategic priorities. We've added new direct insurance customers and our IIA business is on track to deliver its FY24 insurance profit target of at least $250m, after a solid first half performance.

We now have over 600,000 policies on the Enterprise Platform and over the next 12 months, we plan to renew approximately 5m retail and partner policies on to the platform.

We're on track to deliver the FY24 guidance we outlined at the beginning of the financial year. Our strategy is clear, and our leadership team is focused on delivering against our goals.

We are well positioned to continue to play our critical role as an economic shock absorber for consumers and businesses in Australia and New Zealand, helping them when they need us most, while also delivering returns for our shareholders."

Nick Hawkins
IAG Managing Director and
Chief Executive Officer

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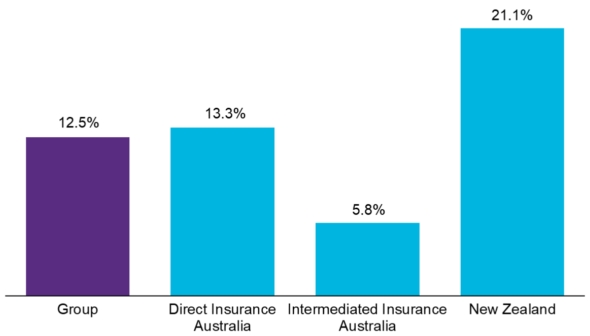
1H24 highlights

GWP growth remains strong

1H24 GWP growth



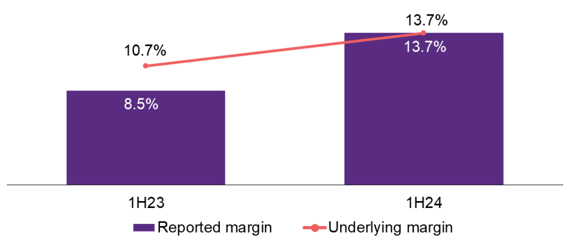
GWP improved by 12.5%, with elevated inflation

Driving the strong GWP growth was higher premium increases across the DIA, IIA and the New Zealand businesses, partially offset by lower volumes, predominantly in IIA.

Retention rates in the DIA motor and home portfolios softened in the half but remain high at close to 90% and above 90% respectively, reaffirming the trust and value our customers place in our products and services, as well as our focus on profitable growth.

Underlying and reported insurance margin

1H24 Underlying/reported margin



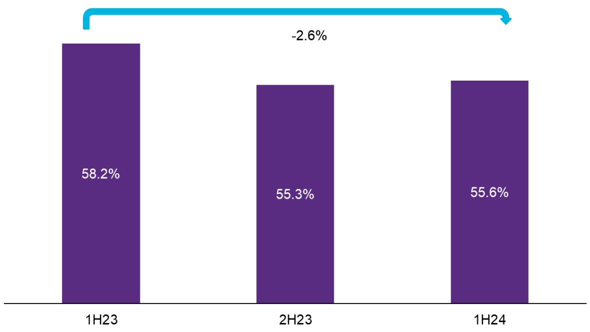
Underlying insurance margin of 13.7%, up from 10.7% in 1H23. Insurance profit of $614m, equating to a reported insurance margin of 13.7%

The improved underlying insurance margin reflected a 260 basis points (bps) fall in the underlying claims ratio as a result of the earn-through of premium rises to recover the inflationary impacts in motor and home claims, as well as a higher investment yield of 5.9% (1H23: 3.7%). The gains were offset by an increase in the expense ratio and a 120bps impact from the increase in the natural perils allowance from $454m to $549m.

The insurance profit of $614m (1H23: $350m) equated to a reported insurance margin of 13.7% (1H23: 8.5%). The reported insurance profit included a favourable net natural perils experience of $28m, a net strengthening of prior year reserves of $59m and a $31m favourable impact from the narrowing of credit spreads.

Underlying claims ratio

1H24 Underlying claims ratio



Improved underlying claims ratio

IAG's underlying claims ratio improved from 58.2% in 1H23 to 55.6% in 1H24 and was broadly flat over 2H23. The underlying claims ratio improved across all three businesses with DIA recording the biggest decrease at 58.5% (1H23: 61.4%).

Net natural peril claim costs were $521m in 1H24 (1H23: $524m) which was $28m below the allowance for the period.

The 1H24 result also included a net $59m strengthening of prior period reserves, as outlined at IAG's Annual General Meeting in October last year. This was predominantly from prior year perils including the Central Coast and Hunter events in May 2023. The additional costs were due to an increase in third-party claims services driving more than expected late lodgements and a higher proportion of total roof replacements at higher costs than first predicted for this event.

NPAT of $407m, down from $468m in 1H23

NPAT was lower due to the absence of a release from the BI claim provision, compared with a release in 1H23 ($360m pre-tax) recorded under net corporate expense. Offsetting the BI provision impact was a $264m increase in the pre-tax insurance profit, driven by a 9.3% rise in net earned premiums and improved reported margin, as well as significantly higher investment income on shareholders' funds of $147m (1H23: $72m).

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Divisional highlights

Direct Insurance Australia (DIA)

GWP growth of 13.3%, up from 9% in 1H23

GWP growth was largely driven by premium increases in response to high claims inflation in the motor and home portfolios.

Motor GWP grew 14%, predominantly due to premium increases, with volumes broadly flat. Customer retention levels softened but remained high at close to 90% across the major states.

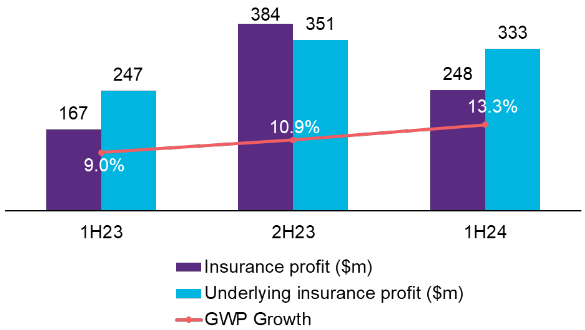
Home GWP growth was 16%, with mid-teen rate growth partially offset by lower new business volumes. Retention rates remained strong at above 90%.

Reported insurance profit of $248m, up from $167m in 1H23

The insurance profit was $248m in 1H24 (1H23: $167m) with a reported insurance margin of 11.9% (1H23: 8.9%).

The underlying insurance margin improved to 15.9% (1H23: 13.2%), reflecting higher earned premium, as premium increases continue to earn through, and stronger investment returns. Offsetting the gains were higher prior year strengthening and prior year perils mainly related to the Central Coast and Hunter events in May 2023.

DIA – Insurance profit/underlying insurance profit /GWP growth



Intermediated Insurance Australia (IIA)

Sound GWP growth of 5.8%

GWP growth of 5.8% (1H23: 7.8%) included 3.1% GWP growth in commercial short-tail, with low double-digit average rate increases being offset by lower volumes, predominantly in the partner personal lines.

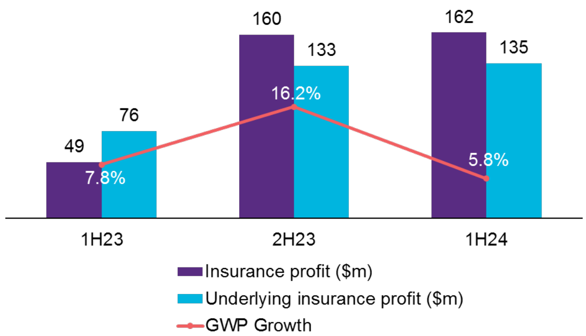
Commercial long-tail GWP declined by 6.8% due to underwriting actions taken in the professional risks and liability portfolios. Personal lines GWP grew by 22.8%, including ~$100m of premium associated with the new ANZ distribution partnership.

Reported insurance profit of $162m, up from $49m in 1H23

IIA's insurance profit was driven by a higher underlying margin of 9.5% compared to 5.7% in 1H23. The result also featured prior year reserve releases and a small benefit from credit spreads narrowing.

The business is on track to deliver its insurance profit target of at least $250m in FY24.

IIA – Insurance profit/underlying insurance profit / GWP growth



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New Zealand

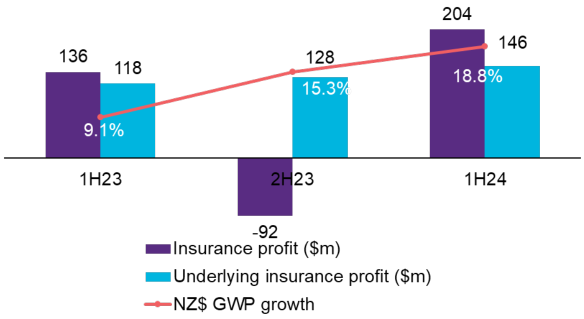
Strong GWP growth of 21.1%, improved underlying insurance margin

GWP growth of 21.1% to A$1.86b (1H23: A$1.54b). Adjusting for NZ currency, GWP grew 18.8% to NZ$2.01b (1H23: NZ$1.70b). Excluding the impact of premium processing changes in the Business and Bank Partners channels from periodic to annual renewals, local currency growth was ~16%.

The New Zealand business reported an insurance profit of A$204m in 1H24, (1H23: A$136m). This translated to a reported insurance margin of 20.8% (1H23: 15.2%), reflecting a combination of higher earned premium, lower natural perils costs, and stronger investment income. The premium processing changes had no impact on the insurance result.

The 1H24 underlying margin of 14.9% (1H23: 13.2%) was largely due to the earn-through of premium increases.

New Zealand – Insurance profit/underlying insurance profit/ GWP growth



Delivering for shareholders

Dividend

1H24 interim dividend of 10% cps, 40% franked

The Board has determined to pay an interim dividend of 10 cents per share (cps), franked to 40% (1H23: 6cps, franked to 30%). The interim dividend equates to a payout ratio of 59% of 1H24 NPAT(1H23: 68%)

IAG's dividend policy on a full year basis is to pay out 60% to 80% of NPAT excluding the after-tax impact from releases from the business interruption claim provision in any given year.

As at 31 December 2023, and prior to the payment of the interim dividend, IAG had a $321m franking balance on a consolidated basis. The company currently has $43m franking credits available for distribution.

Capital position

Strong capital position, in line with target benchmark

IAG's capital position remains strong, with a Common Equity Tier 1 (CET1) ratio of 1.16, above 1.12 in FY23 and higher than the target range of 0.9 to 1.1.

As a result of our strong capital position IAG will undertake an on-market share buyback of up to $200m. In December 2023, Standard and Poor's raised its long-term financial strength and issuer credit rating on IAG's core entities from 'AA-' to 'AA'. This positive outcome reflects IAG's prudent approach to capital, balance sheet management and diverse reinsurance structures.

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FY24 guidance and outlook

GWP growth of 'low double digits'
Reported insurance margin of 13.5% to 15.5%

	%	$
FY24 Underlying insurance margin drivers • Net earned premium growth • Stable claims inflation • Strong investment income • Perils allowance of up to $1,098m		
FY24 Reported margin/insurance profit	**13.5 to 15.5**	**1,200m to 1,450m**

IAG's financial performance in the first six months of FY24, and its confidence in the strength of its underlying business, is reflected in FY24 guidance which remains:

- GWP growth of 'low double digits'. This will be primarily rate driven to cover claims inflation, higher reinsurance costs and an increased natural peril allowance.
- Reported insurance margin guidance of 13.5% to 15.5%. This assumes continued momentum in the underlying performance of IAG's businesses, supported by increased investment yields, a revised natural peril expectation of $1.098b, no material prior period reserve releases or strengthening for the second half of FY24, and no material movement in macro-economic conditions including foreign exchange rates or investment markets.

Following the 13.7% reported insurance margin recorded in 1H24, which included the impact of prior period reserve development and additional reinsurance reinstatement costs, IAG expects an improved second half which will benefit from the earn-through of the strong GWP growth.

The FY24 guidance aligns to IAG's aspirational goals to deliver a 15% insurance margin and a reported Return on Equity (ROE) of 13% to 14% on a 'through the cycle' basis. IAG also has ambitions of:

- One million additional direct customers
- 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
- Further simplification and efficiencies to reduce the Group's administration ratio.

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). As they span a number of years, these assumptions and dependencies have a greater level of uncertainty than the FY24 guidance.

Important information

This announcement contains general information in summary form and should be read in conjunction with IAG's other announcements filed with the Australian Securities Exchange (available at www.iag.com.au).

This announcement contains forward-looking statements, opinions and estimates, including statements regarding IAG's strategy, guidance, targets, goals, ambitions and expectations regarding results. Such statements involve risks, uncertainties and assumptions, many of which are beyond IAG's control. This may cause actual results to differ materially from those expressed or implied in those statements and, consequently, undue reliance should not be placed on those statements. IAG assumes no obligation to update those statements (except as required by law).

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IAG financial performance

Group results	1H23 A$m	2H23 A$m	FY23 A$m	1H24 A$m	1H24 vs 1H23 Mvt
Gross written premium	**7,061**	**7,668**	**14,729**	**7,947**	**+12.5%**
Gross earned premium	6,853	6,985	13,838	7,550	
Reinsurance expense	(2,740)	(2,772)	(5,512)	(3,054)	
Net earned premium	**4,113**	**4,213**	**8,326**	**4,496**	
Net claims expense	(2,911)	(2,955)	(5,866)	(3,108)	
Commission expense	(366)	(394)	(760)	(418)	
Underwriting expense	(575)	(593)	(1,168)	(646)	
Underwriting profit	**261**	**271**	**532**	**324**	
Investment income on technical reserves	89	182	271	290	
Insurance profit	**350**	**453**	**803**	**614**	**+75.4%**
Net corporate expense	353	184	537	(7)	
Interest	(64)	(81)	(145)	(85)	
Profit/(loss) from fee-based business	(14)	(23)	(37)	(12)	
Share of profit/(loss) from associates	(8)	(5)	(13)	0	
Investment income on shareholders' funds	72	140	212	147	
Profit/(loss) before income tax and amortisation	**689**	**668**	**1,357**	**657**	**-4.6%**
Income tax expense	(213)	(216)	(429)	(201)	
Profit/(loss) after income tax (before amortisation)	**476**	**452**	**928**	**456**	
Non-controlling interests	(6)	(87)	(93)	(46)	
Profit/(loss) after income tax and non-controlling interests (before amortisation)	**470**	**365**	**835**	**410**	
Amortisation and impairment	(2)	(1)	(3)	(3)	
Profit/(loss) attributable to IAG shareholders	**468**	**364**	**832**	**407**	**-13.0%**

	1H23		1H24	
Insurance margin	A$m	%	A$m	%
Management reported insurance result	**350**	**8.5%**	**614**	**13.7%**
Reserve (releases)/strengthening	27	0.7%	(5)	(0.1%)
Prior year natural perils	21	0.5%	64	1.4%
Net natural peril claim costs less allowance	70	1.7%	(28)	(0.6%)
Credit spread movements	(29)	(0.7%)	(31)	(0.7%)
Underlying insurance margin	**439**	**10.7%**	**614**	**13.7%**

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