# IAG announces 1H23 results

13 February 2023

## Financial indicators

| | 1H22 | 1H23 | Change | |
|---|---|---|---|---|
| **GWP ($m)** | 6,570 | 7,061 | 7.5% | ▲ |
| Net Earned Premium ($m) | 3,963 | 4,113 | 3.8% | ▲ |
| Insurance profit[1] ($m) | 282 | 350 | 24.1% | ▲ |
| **Underlying insurance margin[2] (%)** | 15.1 | 10.7 | 440bps | ▼ |
| Reported insurance margin (%) | 7.1 | 8.5 | 140bps | ▲ |
| **Net profit/(loss) after tax ($m)** | 173 | 468 | 170.5% | ▲ |
| Cash earnings ($m) | 176 | 223 | 26.7% | ▲ |
| **Dividend (cps)** | 6.0 | 6.0 | - | - |
| Cash ROE (%) | 5.7 | 7.0 | 130bps | ▲ |
| **CET1 multiple** | 1.02 | 1.11 | 9pts | ▲ |

### Financial performance

"We delivered an improved net profit after tax and reported margin in the first half in challenging economic conditions.

We maintained good cost discipline, our businesses are in good shape, and our focus on growth and profitability delivered the strongest first half Gross Written Premium (GWP) growth in seven years, up 7.5% (1H22: 6.2%).

GWP growth was driven by rate increases, to offset the high inflation in the supply chain, as well as customer number growth in the home and motor portfolios.

What's encouraging is the high customer retention rates we continue to hold across our brands, reflecting the trust and value our customers place in our products and services.

Net profit after tax was up on the corresponding half year at $468m (1H22: $173m) and included a post-tax Covid business interruption provision benefit of $252m.

Our reported insurance margin of 8.5% (1H22: 7.1%) reflected growth across the business but was offset by the ongoing impacts of higher inflation on claims costs in home and motor. A $70m unfavourable net natural perils experience and a $48m prior year reserve strengthening also impacted the margin.

Our expense ratio improved by 110 basis points to 22.9%. We remain on track to maintain the Group's full year cost base of approximately $2.5bn.

Our Intermediated Insurance Australia (IIA) division performed well over the half, recording GWP growth of 7.8% (1H22: 8.9%) and an insurance profit of $49m (1H22: $4m loss). The underlying insurance margin also improved to 5.7% (1H22: 5%).

GWP grew by 9% in the Direct Insurance Australia (DIA) business. While the growth was mostly due to rate increases, we also saw volume growth of more than 2% across home and motor, and retention levels remained high.

The deteriorating inflationary environment in the half year had an immediate impact on our businesses. Our DIA business was most impacted with a reported insurance margin of 8.9% (1H22: 10.5%).

GWP growth in New Zealand was 9.1% in NZ currency and the reported margin increased to 15.2% (1H22: 11.4%).

### Delivering on strategy

We are making solid inroads against our strategic priorities and medium-term ambitions in the half. We added more than 100,000 direct customers across Australia and New Zealand.

IIA continued to build the momentum needed across its business to achieve its $250m profit ambition in FY24. Benefits from a number of initiatives were realised, such as embedding a simplified operating model and upgraded pricing and underwriting capability. We also strengthened our broker relationships, reflected in CGU being awarded Large General Insurer of the Year by NIBA.

Customer take up of digital channels gained traction over the half and we are seeing further simplification gains through supply chain and claims initiatives.

Our digital transformation is progressing well with the Enterprise Platform now deployed in parts of the Direct and Intermediated businesses, and rollout for the New Zealand business will start in the second half. New mobile, automation and online features were introduced across IAG in the first half, delivering simpler and faster experiences for our customers, partners and brokers.

### Confidence in FY23 outlook

As noted in our market update on 3 February 2023, we are forecasting FY23 GWP growth to be around 10%, an increase from the previous guidance of mid to high-single digit growth.

We expect our FY23 reported insurance margin to be around 10% compared to our previous range of 14% to 16%. This is largely due to the expected higher natural perils costs from the Auckland flood event.

Despite the challenges from the high inflation and perils experience impacting our business in the half, I believe we have a sound basis for confidence as we move into the second half.

We are well positioned on a number of fronts – the quality of our brands and customers, our strong capital position where we have a third of our business on multi-year quota share arrangements, and our focused strategy is delivering results.

It's this strong position which gives us confidence in our FY23 outlook, the financial return we can deliver to our shareholders, and the opportunities ahead."

Nick Hawkins

IAG Managing Director and
Chief Executive Officer

*See footnote 1 and 2 on insurance profit and underlying insurance margin (respectively) on page 2

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## 1H23 highlights

### GWP growth of 7.5%, improved expense ratio offset by inflation pressure on claims

**Momentum in the business, despite challenging economic environment and high inflation**

- 7.5% GWP growth largely rate driven in response to inflation pressures across the Group, as well as volume growth across key home and motor portfolios in the Australian DIA business
- Expense ratio improved and we remain on track to meet our Group full year cost base target of approximately $2.5b
- IAG's capital position is strong, with a Common Equity Tier 1 ratio of 1.11, above the target benchmark of 0.9 to 1.1

**Lower reported margin of 8.5% impacted by higher home and motor claims inflation**

- Natural perils costs of $524m were $70m above the allowance
- Reserve strengthening of $48m driven by short-tail claims
- A positive $29m credit spread impact
- Underlying insurance margin of 10.7% (1H22: 15.1%) was lower due to the impact of short-tail claims inflation in the home and motor portfolios as well as COVID 19 frequency benefits which flowed through in 1H22

**Net profit after tax (NPAT) of $468m, up from $173m in 1H22**

- Includes business interruption provision release of $252m post-tax
- Excluding the business provision release, the underlying NPAT was $216m (1H22: $173m)

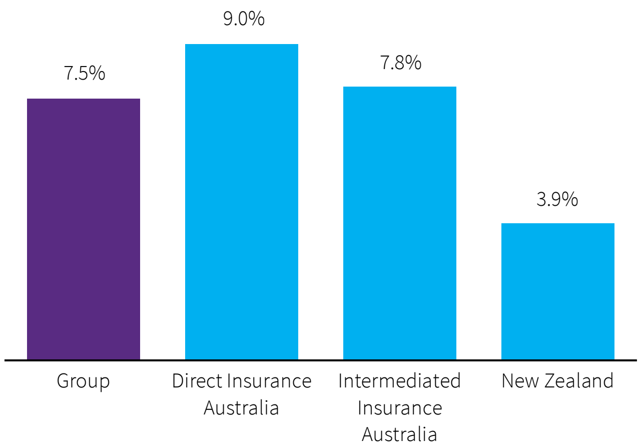
**FY23 outlook: GWP guidance upgraded, reported margin impacted by Auckland event**

- Forecast GWP growth upgraded from mid-to-high single digit growth to around 10%
- Forecast reported insurance margin of around 10% compared to previous FY23 guidance of 14% to 16%
- FY23 natural perils allowance increased to $1.145bn following the Auckland event

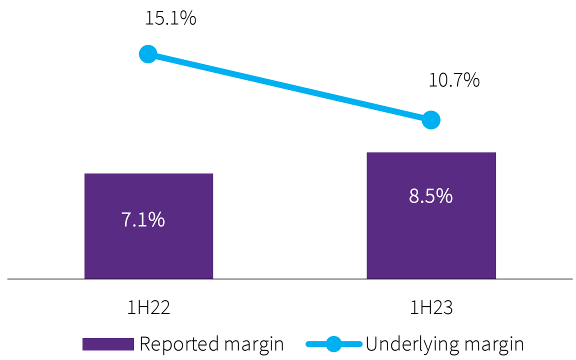
**Cash earnings of $223m and cash ROE of 7.0%**

- 1H23 dividend of 6cps (1H22: 6cps)

1H23 GWP growth




Insurance Margin




[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 IAG 1H23 Investor Report and on page [3] of the 1H23 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 1H23Financial Report.

[2]IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural perils claims costs less the related allowance; prior year reserve releases or strengthening and credit spread movements

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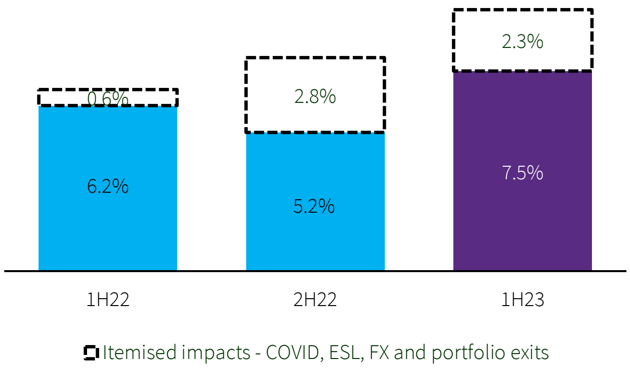
## GWP growth

### Solid GWP performance

**Driven by rate increase with volume growth in key strategic portfolios**

- Rate increases across key commercial and personal classes to counter claims inflation, higher perils allowance and reinsurance costs
- Retention levels for motor and home have remained high at more than 91% and 95% respectively
- GWP growth in DIA, IIA and NZ businesses
- Volume growth of more than 2% in direct personal short tail classes in Australia
- Added more than 100,000 direct customers across Australia and New Zealand

GWP growth



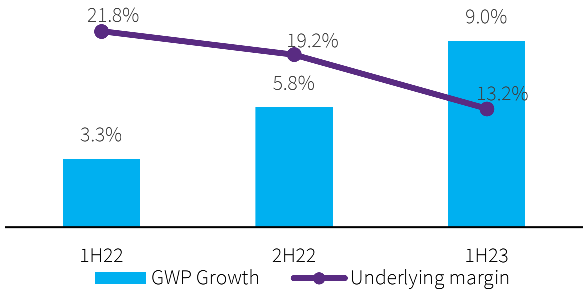

## Divisional highlights

### Direct Insurance Australia (DIA)

**GWP growth of 9%**

- GWP growth reflects premium rate increases and also volume growth of more than 2% across personal short tail classes
- Motor GWP grew 8%, reflecting rate increases to address claims inflation. Volume growth was 1%, driven by higher volume through the RACV brand and the rollout of NRMA Insurance in Western Australia, South Australia and Northern Territory
- Home GWP rose 13.3%, primarily due to double digit average rate rises to offset higher claims inflation, reinsurance costs and an Emergency Service Levy increase of approximately $15m. Volume growth was also strong at over 4% primarily with the RACV brand in Victoria and NRMA Insurance
- Strong retention levels remain a key feature in DIA and continue to be at high levels

DIA - GWP growth / underlying margin




**Reported insurance margin of 8.9%**

- Reported insurance margin of 8.9% (1H22: 10.5%) impacted by claims inflation and higher natural peril costs. There were 34 severe and major weather events in Australia in the 12 months to 31 December 2022. That compares to 24 in the previous calendar year
- Underlying margin of 13.2% (1H22: 21.8%) was mostly affected by double-digit claims inflation in motor and home and an increase in the natural perils allowance

## Intermediated Insurance Australia (IIA)

**Solid GWP growth of 7.8%**

- GWP growth of 7.8%, with at least double-digit growth achieved across all major classes on an underlying basis. After adjusting for portfolio exits, such IAL Steadfast, underlying growth was 14%
- Rate increases remain the dominant growth driver and averaged 11% across 1H23
- Solid overall retention levels have been supplemented by volume growth in select portfolios

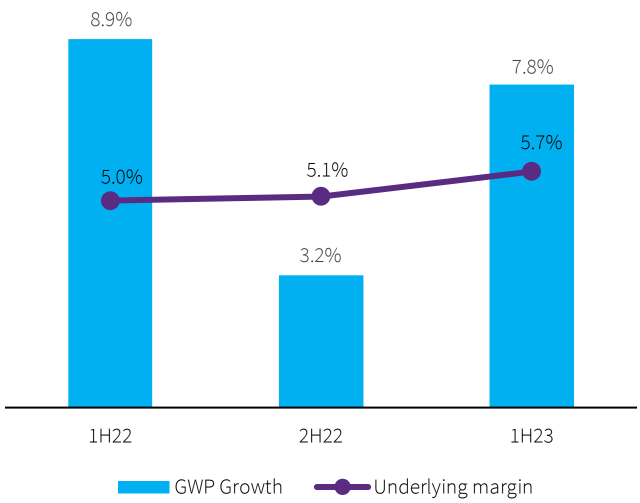
**Underlying margin improvement to 5.7%, reported margin of 3.6%**

- Underlying margin was 5.7%, up on the 5% achieved in 1H22, mostly due to improved investment yields and lower expense ratio
- Reported insurance margin rebounded strongly to 3.6% (1H22: -0.3%)

**Insurance profit of $49m, up from a loss of $4m in 1H22**

- Insurance Profit benefitted from lower natural perils costs than in 1H22
- Steady progress towards $250m IIA insurance profit ambition in FY24

IIA – GWP growth / underlying margin

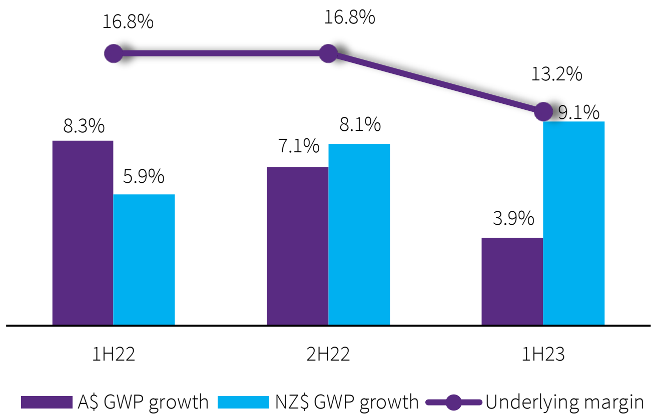



## New Zealand

**GWP growth of 3.9% and improved reported insurance margin**

- Adjusting for weaker NZ currency movements, GWP growth was 9.1% and underlying local currency GWP growth was 10.1% (after allowing for the estimated impact of the EQC cap change on 1 October 2022)
- GWP growth was largely due to rate increases across all key portfolios
- Overall volume was flat with some growth in the commercial motor portfolio
- The reported insurance margin rose to 15.2%, up from 11.4% in 1H22 due to lower natural perils cost in the half. Higher underlying claims and perils allowance impacted the underlying margin of 13.2%

New Zealand - GWP growth / underlying margin



# Return to shareholders

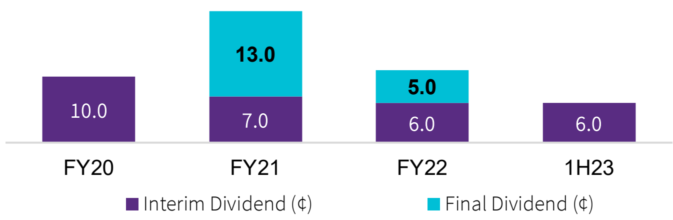
## Dividend

**1H23 dividend of 6cps, franked to 30%**

The IAG Board has declared an interim dividend of 6 cents per share, franked to 30% (1H22: 6cps unfranked). This equates to a payout ratio of 68% of 1H23 NPAT adjusted for the business interruption provision release (1H22: 84% of cash earnings).

IAG's stated dividend policy is to distribute 60% to 80% of NPAT excluding the after-tax impact from releases from the business interruption provision. The Dividend Reinvestment Plan has been suspended for the interim dividend.

Dividend history – FY20 to 1H23




## Capital position

**Strong capital position**

IAG is strongly capitalised with total regulatory capital of $5,220m at 31 December 2022 ($4,380m at 30 June 2022). The CET1 ratio is IAG's primary capital measure and was above the targeted levels at 1.11 times the Prescribed Capital Amount. This compares to the target range of 0.9 to 1.1 times and regulatory minimum requirement of 0.6 times.

# 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:
  - 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;
  - A natural peril expectation of $1,145 million;
  - No 2H23 material prior period reserve releases or strengthening; and
  - 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).

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## IAG Financial Performance

| GROUP RESULTS | 1H22 A$m | 2H22 A$m | FY22 A$m | 1H23 A$m |
|---|---|---|---|---|
| Gross written premium | 6,570 | 6,747 | 13,317 | 7,061 |
| Gross earned premium | 6,515 | 6,457 | 12,972 | 6,853 |
| Reinsurance expense | (2,552) | (2,511) | (5,063) | (2,740) |
| Net earned premium | 3,963 | 3,946 | 7,909 | 4,113 |
| Net claims expense | (2,725) | (2,490) | (5,215) | (2,911) |
| Commission expense | (347) | (347) | (694) | (366) |
| Underwriting expense | (602) | (574) | (1,176) | (575) |
| Underwriting profit | 289 | 535 | 824 | 261 |
| Investment income on technical reserves | (7) | (231) | (238) | 89 |
| Insurance profit | 282 | 304 | 586 | 350 |
| Net corporate expense | - | 200 | 200 | 353 |
| Interest | (47) | (46) | (93) | (64) |
| Profit/(loss) from fee-based business | (13) | (21) | (34) | (14) |
| Share of profit/(loss) from associates | 8 | 9 | 17 | (8) |
| Investment income on shareholders' funds | 53 | (158) | (105) | 72 |
| Profit/(loss) before income tax and amortisation | 283 | 288 | 571 | 689 |
| Income tax expense | (77) | (63) | (140) | (213) |
| Profit/(loss) after income tax (before amortisation) | 206 | 225 | 431 | 476 |
| Non-controlling interests | (30) | (47) | (77) | (6) |
| Profit/(loss) after income tax and non-controlling interests (before amortisation) | 176 | 178 | 354 | 470 |
| Amortisation and impairment | (4) | (3) | (7) | (2) |
| Profit/(loss) attributable to IAG shareholders from continuing operations | 172 | 175 | 347 | 468 |
| Net profit/(loss) after tax from discontinued operations | 1 | (1) | - | - |
| Profit/(loss) attributable to IAG shareholders | 173 | 174 | 347 | 468 |

| | 1H22 | | 1H23 | |
|---|---|---|---|---|
| INSURANCE MARGIN | A$m | % | A$m | % |
| Management reported insurance margin | 282 | 7.1% | 350 | 8.5% |
| Net natural peril claim costs less allowance | 299 | 7.6% | 70 | 1.7% |
| Prior year reserve movements | 37 | 0.9% | 48 | 1.2% |
| Credit spread movements | (18) | (0.5%) | (29) | (0.7%) |
| Underlying insurance margin | 600 | 15.1% | 439 | 10.7% |

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