IAG announces FY22 results

12 August 2022

Financial indicators

	FY21	FY22	Change	
GWP ($m)	12,602	13,317	5.7%	▲
NEP ($m)	7,473	7,909	5.8%	▲
Insurance profit[1] ($m)	1,007	586	41.8%	▼
Underlying insurance margin[2] (%)	14.7	14.6	10bps	▼
Reported insurance margin (%)	13.5	7.4	610bps	▼
Net (loss)/profit after tax ($m)	(427)	347	nm	▲
Cash earnings ($m)	747	213	71.5%	▼
Dividend (cps)	20.0	11.0	45%	▼
CET1 multiple	1.06	0.97	9pts	▼

Financial performance

"Our FY22 financial results reflect the quality of our underlying business as we build a stronger and more resilient IAG. We had strong GWP growth, and the performance of our business was steady despite the challenging external environment.

GWP grew 5.7% (FY21: 3.8%), and while the growth predominantly reflected rate increases to offset inflationary pressures in the supply chain and natural perils, retention rates improved over the year.

Our reported insurance margin of 7.4% was below our expectations due to higher natural perils cost of $1,119 million versus our allowance of $765 million, a $45 million negative credit spread impact and a $172 million strengthening of prior year reserves. The underlying insurance margin was 14.6% (FY21:14.7%).

Net profit after tax was $347 million (FY21: $427 million loss), reflecting the performance of the underlying core business and a $200 million pre-tax release from the business interruption provision.

GWP growth in the Direct Insurance Australia business was 4.6%, accelerating in the second half to 5.8%, while its underlying margin remained strong at 20.5%.

We continue to see good signs from our Intermediated Insurance Australia business with GWP growth at 6.0% (FY21:5.6%) while its underlying insurance margin was 5.0% (FY21: 3.9%).

Our New Zealand business performed well with 7.0% NZ currency GWP growth (FY21: 2.8%) reflecting growth across its commercial insurance and direct brands with a volume increase in commercial motor.

Executing on the strategy

We are on track to deliver against our strategic priorities. Our customer numbers in the NRMA Insurance business grew as we rolled out the brand in Western Australia and South Australia and brought customers over from our intermediated brands.

Our New Zealand business saw a solid increase in GWP over the year, and our Intermediated business has been reset and positioned for growth under a new leadership team with deep experience and expertise.

The completion of a number of delivery milestones this year has simplified the processes and technologies that underpin our business, improving enterprise efficiency and the customer experience.

We are more than halfway through the build of our Enterprise Platform in our personal lines business, adding to our now consolidated claims system. Our customer, policy, pricing and claims systems are fully operational for NRMA customers in Western Australia, South Australia and the Northern Territory and we've accelerated the digital transformation of our customer experience, making it easier for customers, brokers and partners to do business with us.

While it is early days, we're pleased with the progress against our aim to deliver $400 million of value through claims and supply chain effectiveness. We launched the Online Motor Claims tracker in May, which now has more than 170,000 customer interactions. Our online digital claims lodgements have increased, and the benefits are starting to flow through from our motor repair model program.

Climate change & natural perils

Climate change and its impact on our customers and communities is one of the most important challenges we face as a business. FY22 was one of the most significant peril years we have experienced, with multiple events in Australia and New Zealand, including the February 22 floods in northern New South Wales and along the east coast. Across Australia and New Zealand, claim lodgements relating to extreme weather events in FY22, more than doubled over the prior year.

To deal with the increasing severity and frequency of extreme weather events, we have put in place our largest to date perils allowance, increasing it by 19% to $909 million for FY23.

Our strong view remains that we need a coordinated national approach from governments, businesses, and communities to build more resilient communities and reduce the impact of natural disasters. Using our expertise and knowledge of the changing environment, we will continue to play our part in protecting people and communities."

Nick Hawkins
IAG Managing Director and
Chief Executive Officer

1 The FY22 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 FY22 Financial Report (Appendix 4E). A reconciliation between the two is provided on page 11 of the IAG FY22 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 FY22 net profit 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 claims costs less the related allowance; reserve releases or strengthening and credit spread movements.

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FY22 highlights

Strong GWP growth, improved second half underlying margin

Positive momentum, despite challenging FY22 environment

- 5.7% GWP growth, primarily rate driven and consistent with the upgraded guidance of mid-single digit growth with some volume growth
- Underlying insurance margin was 14.6% (FY21:14.7%). 2H22 stronger at 14.1.%, compared to 13.5% in 2H21
- Group operating costs were $2,531m, broadly in line with previous guidance, resulting in an improved expense ratio
- Excluding the net COVID-19 benefit, the underlying loss ratio fell from 54.7% to 54.3% in FY22
- IAG's capital position remained strong, with a Common Equity Tier 1 ratio of 0.97, in line with the target benchmark of 0.9 to 1.1

Reported insurance margin 7.4 %, below our expectations

- Natural perils costs were $354m above original allowance of $765m, broadly in line with the guidance of $1.1bn announced in March
- Negative credit spread impact of $45m
- Prior period reserve strengthening of $172m due mainly to late reported claims, notably worker injury claims and a higher claims inflation in the commercial liability portfolio
- IAG has refined its pricing and underwriting to mitigate future impacts for a range of issues, including silicosis and work injury
- FY22 underlying margin was also impacted by a net benefit from the COVID-19 effects experienced in 1H22 and a discount rate timing difference. Adjusting for these impacts, the margin improved to 14.4% (FY21:13.8%)

Net Profit After Tax of $347m, up from a $427m loss in FY21

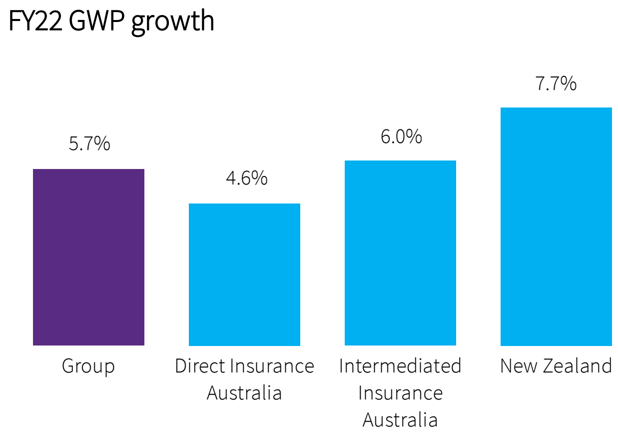
- Includes $200m pre-tax release from the business interruption provision and strong momentum in the underlying business
- Includes a strengthening of prior period reserves of $135m in 2H22 (FY22: $172m) and a challenging operating environment with a higher incident of natural perils, volatile investment markets and higher inflation

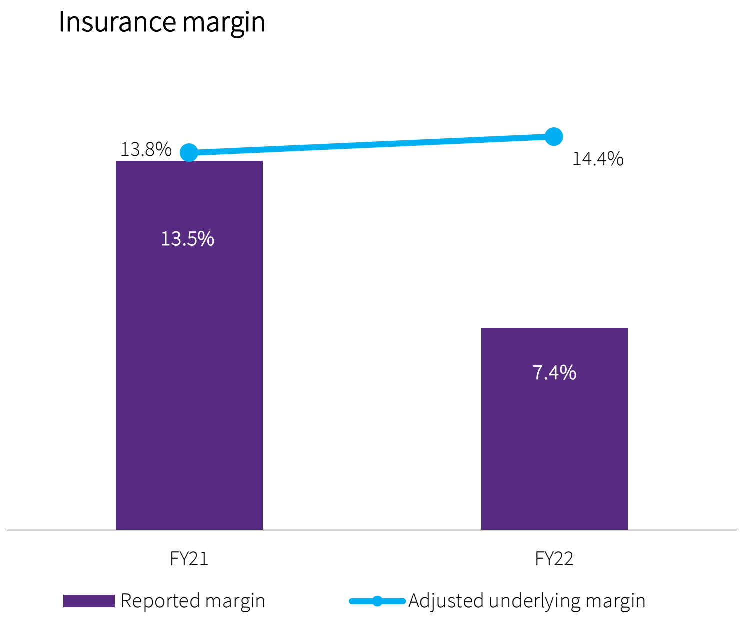
FY23 Guidance reflects business momentum

- GWP growth mid-to-high single digit
- Reported insurance margin guidance of 14% to 16%

Cash earnings of $213m and cash ROE of 3.4%

- Final dividend 5cps, 70% franked
- Total FY22 dividend of 11cps





GWP growth

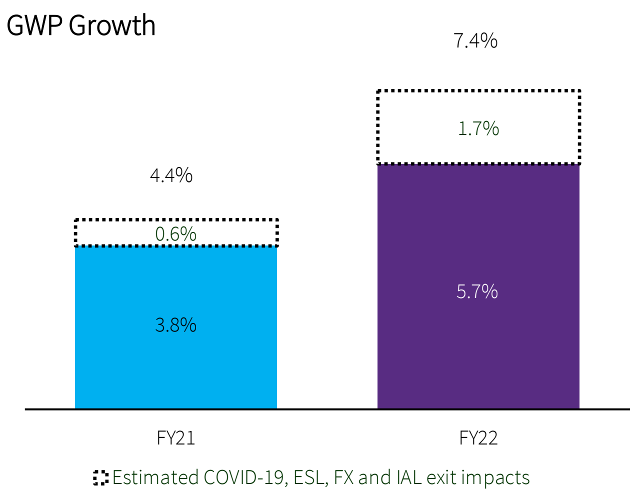
Premium increases to recover higher costs

FY22 GWP growth of 5.7%

- Growth mainly reflected rate increases with some volume growth
- Renewal levels for both Motor and Home increased during the year in every Australian state and are now above 90% and 95% respectively
- Adjusting for Covid impacts, exit of IAL, the Emergency Services Levy (ESL) and FX movements, GWP growth was 7.4%

Pricing outlook

- Ongoing rate increases expected in FY23 in short tail personal lines in the DIA business, an increase in customer numbers and modest volume growth
- Continued rate rises 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



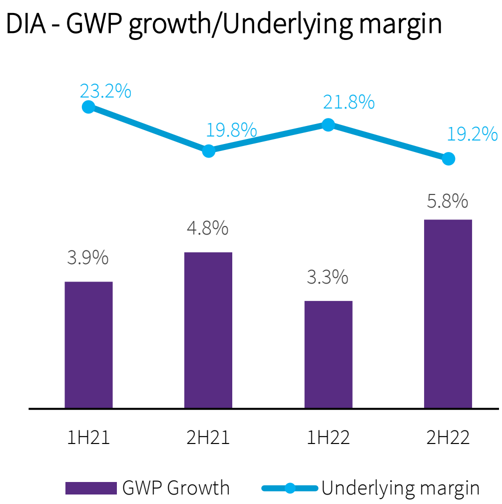
Divisional performance

Direct Insurance Australia

- GWP growth of 4.6 %, primarily rate driven and with 1% volume growth in personal short-tail classes
- Excluding the ESL movements, GWP growth was 5.4%
- During the year, DIA served 4.9 million customers, holding 8.5 million policies, an increase on FY21

Underlying claims experience

- The underlying claims ratio (excluding reserve movements, natural perils and discount rate adjustments) fell to 53.1% in FY22, compared to 53.5% in FY21
- The improved ratio reflected lower claims frequency in 1H22 and higher premiums. This was offset by high-single digit increases in average motor claim costs, mainly driven by disruption of the supply chain network and higher average home claims costs, particularly in NSW and Victoria where labour and material prices were higher
- IAG has continued to counter underlying claim inflation pressures through increased utilisation of its motor repair model across all brands



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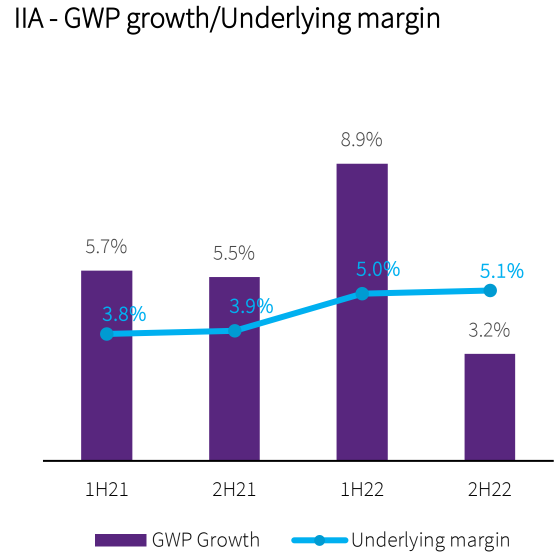
Intermediated Insurance Australia

- Robust GWP growth of 6%, with at least high single digit growth achieved across all major classes. The growth was mainly due to rate increases which averaged 9% in FY22, building on the 8% achieved in FY21. The market backdrop remains supportive of underlying margin improvement
- Overall retention levels remained solid
- Underlying margin of 5.0% in FY22 (FY21: 3.9%), underpinned by underwriting and investment returns, confirming steady progress towards IIA's $250m insurance profit ambition by FY24. Key drivers for this improvement were the net effect of a 140bps benefit in the underlying claims ratio, and higher premium rates, which exceeded elevated claims inflation in several classes
- IIA reported an insurance loss of $103m in FY22, reflecting a higher natural peril cost and prior year reserve strengthening of $151m, driven by the commercial liability class

Underlying claims experience

- IIA's underlying claims ratio (excluding reserve movements, natural perils and discount rate adjustments) was 52.5%, an improvement on the 53.9% recorded in FY21. The ratio benefited from higher premium rates, which offset elevated claims inflation in several classes, and a favourable performance in WFI Rural packages, predominately in 2H22. There were also improvements in professional risk and workers compensation long tail loss ratios reflecting active portfolio management

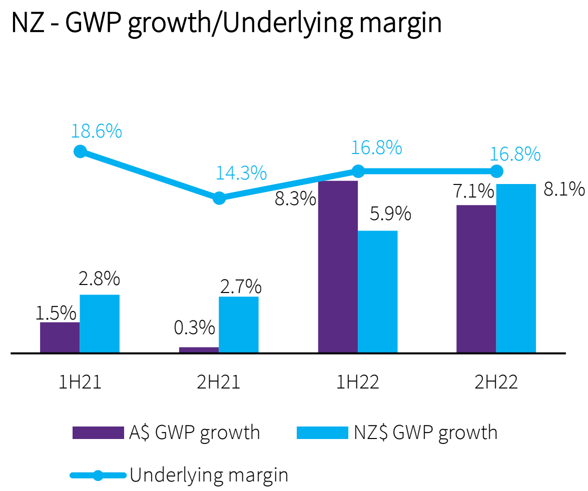


New Zealand

- The New Zealand business continued to perform well, recording NZ currency GWP growth of 7.0% in FY22, up from 2.8% in the prior year. The increase was mostly driven by premium rate increases across all the key portfolios and includes volume growth in the commercial property and commercial motor portfolios
- Retention rates remained strong and improved on prior year levels across all key commercial lines portfolios. The underlying margin increased to 16.8% (FY21:16.4%), largely due to ongoing disciplined cost management, including the introducing of automation, and increased rating to address higher input costs from inflationary pressures

Underlying claims experience

- New Zealand incurred a higher underlying loss ratio of 54.5% in FY22 (FY21: 53.6%)



Natural perils

Significant peril activity in FY22

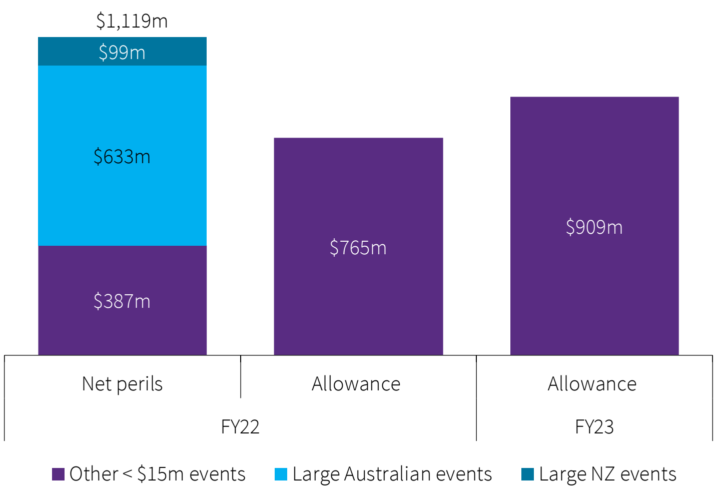
Severity and frequency of extreme weather events higher in FY22

- Natural Perils costs of $1,119m (post quota share) were $354m above the original allowance of $765m but broadly consistent with the updated guidance of $1.1bn provided in March 2022
- The main contributors were:
  - Adelaide hail and Victorian severe winds (October 2021)
  - NSW and Queensland thunderstorms (October 2021)
  - South-East Queensland and NSW floods (February 2022)
  - New Zealand Westport floods (July 2021)
- The net cost of the February 2022 Queensland/NSW flooding event ($73m) and the March 2022 East Coast Low ($34m) were reduced by the financial protection provided by the Group's main catastrophe and aggregate reinsurance covers

FY23 natural perils allowance of $909m

- Net (post-quota share) allowance of $909m, up approximately 19% or $144m on the FY22 allowance. The pre-quota share allowance for FY23 is $1.35bn
- Calendar 2022 gross catastrophe cover up to $10bn, which is unchanged from 2021

Natural perils v allowance



Return to shareholders

Capital position

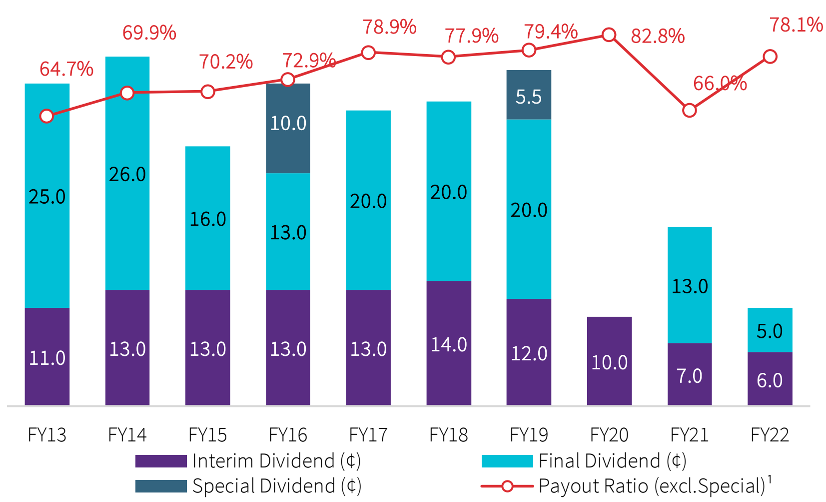
In line with target benchmark

- IAG's capital position remained strong, with a Common Equity Tier 1 ratio of 0.97, in line with the target benchmark of 0.9 to 1.1
- Completed the sale of the Malaysian business on 28 July 2022, which will add $150m (0.06) to the Group CET1

Dividend

- Final dividend of 5 cps, 70% franking (FY21: 13cps)
- This brings the full year dividend to 11 cps, which equates to a payout of 78.1% on reported NPAT

Dividend History - FY13 to FY22



[1] FY22 payout ratio based on Reported NPAT

FY23 guidance and outlook

Strong underlying business performance expected in FY23

IAG is forecasting mid-to-high single digit GWP growth and a reported Insurance margin of 14% to 16%. Assumptions are outlined in Appendix 1 (page 8 of this release).

“Our FY23 guidance aligns to our aspirational goals to achieve a 15% to 17% insurance margin and a reported ROE of 12 to 13% over the medium term. These goals encompass our ambitions around increasing our customer base by 1 million to 9.5 million by FY26, an insurance profit of at least $250 million by FY24 in our Intermediated Australia business, further simplification and efficiencies to maintain the Group’s cost base at $2.5 billion, $400 million in value from DIA claims and supply chain cost reductions on a run rate basis from FY26, and higher customer interactions through the company’s digital channels.

“We are well placed to manage the inflationary pressures in the year ahead through initiatives such as the Motor Repair Model and Home Claims Assist Pilot. We are establishing the next evolution of claims program, which will differentiate us by delivering superior service to our customers through automation, digitisation and most importantly, customer empowerment. The next evolution of claims untaps the potential around customer empowerment and is one of many initiatives that will aim to deliver $400 million worth of value to IAG.

“We enter the new financial year with momentum across our three core businesses and we are positioned for growth as the benefits from our strategic priorities flow through to the business,” Mr Hawkins said.

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IAG financial performance

GROUP RESULTS	1H21 A$m	2H21 A$m	1H22 A$m	2H22 A$m	FY21 A$m	FY22 A$m	FY22 vs FY21 Mvt
Gross written premium	6,188	6,414	6,570	6,747	12,602	13,317	+5.7%
Gross earned premium	6,190	6,155	6,515	6,457	12,345	12,972	
Reinsurance expense	(2,467)	(2,405)	(2,552)	(2,511)	(4,872)	(5,063)	
Net earned premium	3,723	3,750	3,963	3,946	7,473	7,909	
Net claims expense	(2,281)	(2,526)	(2,725)	(2,490)	(4,807)	(5,215)	
Commission expense	(337)	(341)	(347)	(347)	(678)	(694)	
Underwriting expense	(539)	(581)	(602)	(574)	(1,120)	(1,176)	
Underwriting profit	566	302	289	535	868	824	
Investment income on technical reserves	101	38	(7)	(231)	139	(238)	
Insurance profit	667	340	282	304	1,007	586	-41.8%
Net corporate expense	(1,310)	(200)	-	200	(1,510)	200	
Interest	(42)	(47)	(47)	(46)	(89)	(93)	
Profit/(loss) from fee-based business	(13)	(16)	(13)	(21)	(29)	(34)	
Share of profit/(loss) from associates	18	19	8	9	37	17	
Investment income on shareholders' funds	138	168	53	(158)	306	(105)	
Profit/(loss) before income tax and amortisation	(542)	264	283	288	(278)	571	nm
Income tax expense	187	(62)	(77)	(63)	125	(140)	
Profit/(loss) after income tax (before amortisation)	(355)	202	206	225	(153)	431	
Non-controlling interests	(97)	(53)	(30)	(47)	(150)	(77)	
Profit/(loss) after income tax and non-controlling Interests (before amortisation)	(452)	149	176	178	(303)	354	
Amortisation and impairment	(4)	(107)	(4)	(3)	(111)	(7)	
Profit/(loss) attributable to IAG shareholders from continuing operations	(456)	42	172	175	(414)	347	nm
Net profit/(loss) after tax from discontinued operations	(4)	(9)	1	(1)	(13)	-	
Profit/(loss) attributable to IAG shareholders	(460)	33	173	174	(427)	347	nm

INSURANCE MARGIN	FY21 A$m	FY21 %	FY22 A$m	FY22 %
Management reported insurance margin	1,007	13.5%	586	7.4%
Net natural peril claim costs less allowance	84	1.1%	354	4.4%
Reserve releases/(strengthening)	81	1.1%	172	2.2%
Credit spread movements	(77)	(1.0%)	45	0.6%
Underlying insurance margin	1,095	14.7%	1,157	14.6%

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Appendix 1

FY23 GUIDANCE AND OUTLOOK

IAG's confidence in its strong underlying business is reflected in upgraded guidance for FY23 which includes:

- GWP of 'mid-to-high single digit' growth. This will be primarily rate driven to cover claims inflation, higher reinsurance costs and an increased natural peril allowance. Modest volume growth and an increase in customer numbers are expected.
- Reported insurance margin guidance of 14% to 16% which assumes:
  - Continued momentum in the underlying performance of IAG's businesses, supported by increased investment yields;
  - An increase in the natural peril allowance to $909 million, an increase of $144 million or nearly ~19% on the FY22 allowance;
  - No material prior period reserve releases or strengthening; and
  - No material movement in macro-economic conditions including foreign exchange rates or investment markets.

This guidance aligns to IAG's aspirational goals 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 by 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 $2.5 billion.

These goals 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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