IAG announces FY23 results

21 August 2023

FY23 financial highlights

- **GWP up 10.6% to $14.7b**
- **Insurance profit up 37% to $803m**
- **Reported insurance margin of 9.6%, up from 7.4% in FY22**
- **Underlying insurance margin of 12.6%, down from 14.6% in FY22**
- **Net Profit After Tax of $832m, up 140%**
- **Total claims paid around $10.2b, up 20%**
- **Final dividend at 9cps**

Financial performance

"FY23 was a solid year for IAG, reflecting the positive momentum in our core business and the significant progress we've made to create a stronger and more resilient company.

Our Gross Written Premium (GWP) growth is above 10% for the year. We maintained our Group operating costs in line with our target of $2.5b for the third year in a row, lowered our expense ratio, and improved our Net Profit After Tax (NPAT) in a challenging economic environment.

Our FY23 result was driven by steps we took in 2021 to reset the business with a simpler operating model and a greater focus on our core business.

Building on first half momentum, GWP grew 10.6%, (FY22: 5.7%) in FY23 and ahead of our guidance of around 10%. While the increase was largely due to premium rises across the three businesses in response to inflation pressures and higher reinsurance and natural perils costs, we continued to grow our customer base, and retention levels in our Direct Insurance Australia (DIA) business remained high.

Our reported insurance margin was 9.6% (FY22:7.4%). The improved margin benefited from credit spread gains and lower prior year reserve strengthening. The insurance profit rose 37% to $803m (FY22: $586m).

Elevated inflation in home and motor claims costs, as well as the higher natural perils allowance impacted our underlying insurance margin which narrowed to 12.6% (FY22:14.6%). Excluding $67m in reinsurance reinstatement costs, the adjusted underlying margin would be 13.4%.

Our NPAT increased to $832m (FY22: $347m), benefiting from a post-tax business interruption provision release of $392m. It came in a year where we paid around $10.2b in claims to support our customers, up approximately 20% on FY22.

GWP growth was solid across our DIA, Intermediated Insurance Australia (IIA) and New Zealand businesses. DIA's underlying insurance margin increased from 13.2% in 1H23 to 18.2% in 2H23 to deliver a FY23 underlying insurance margin of 15.7% (FY22: ~19% excluding Covid-19 benefit). We were also pleased with the 38% reduction in outstanding home claims achieved this year.

IIA reported a higher underlying margin of 7.7% (FY22: 5%), underscoring the momentum in the business. New Zealand's underlying insurance margin of 13.5% (FY22: 16.8.%) largely reflected higher underlying claims and reinsurance costs.

Executing on strategy

We made sound progress against our strategic priorities adding approximately 132,000 customers in our DIA business, while IIA finished the year strong with an insurance profit of $209m (FY22: $103m loss), on track to meet its FY24 insurance profit target of at least $250m.

As noted at our recent Investor Day, since the start of FY22 we've created ~$70m of recurring savings by reducing claims and supply chain inefficiencies and continuing to extend our repair footprint. We now have approximately 15% of vehicles going through our Repairhub network in Australia and New Zealand.

We've continued the roll out of the Enterprise Platform and introduced more digital capabilities than ever before, with over 100 new mobile, automation and online features added across DIA, IIA and the New Zealand businesses.

"We enter FY24 with positive momentum across the company and confidence that the strategy we have in place will deliver long term benefits for our shareholders and the 8.7m customers we serve" — Nick Hawkins

Climate change and natural perils

FY23 was another significant perils year and we saw the devastating impacts of multiple large-scale events across Australia and New Zealand on our customers and communities. We are now moving to warmer and dryer conditions which should see a shift away from rain dominated claims.

We've increased our FY24 natural perils allowance by 26% to $1.147b, up from $909m in FY23. We estimate around 20% of premiums we collect now cover reinsurance costs and the perils allowance.

We will continue to play our part in supporting our customers and communities and remain committed to working with all levels of government on initiatives that will improve community resilience and reduce risk.

Confidence in outlook

We enter FY24 with positive momentum across the company and confidence that the strategy we have in place will deliver long term benefits for our shareholders and the 8.7m customers we serve.

We're also heartened by the ongoing high levels of customer renewals and growth in new customers. These are a tribute to the strength and stature of our brands and our customers' confidence in the value of what we do, which is guided by our purpose *to make your world a safer place."*

Nick Hawkins
IAG Managing Director and
Chief Executive Officer

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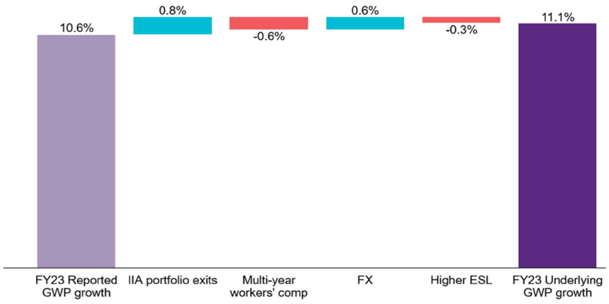
Highlights

GWP growth of 10.6%, improved expense ratio

FY23 GWP growth



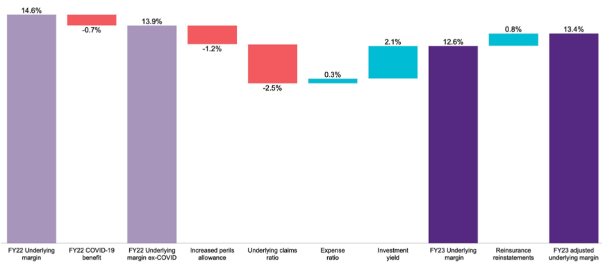
Solid momentum in the business and strong GWP growth in a challenging economic environment, and elevated inflation

Strong GWP growth of 10.6% was mainly due to premium increases and also volume growth of around 1% in the Australian direct home and motor portfolios.

Retention rates in the DIA motor and home portfolios remained very high at over 90% and 95% respectively, reflecting the trust and value our customers place in our products and services.

Underlying insurance margin

FY23 Underlying margin



Underlying insurance margin of 12.6%, down from 14.6% in FY22. Insurance profit of $803m and reported insurance margin of 9.6%, above 7.4% in FY22.

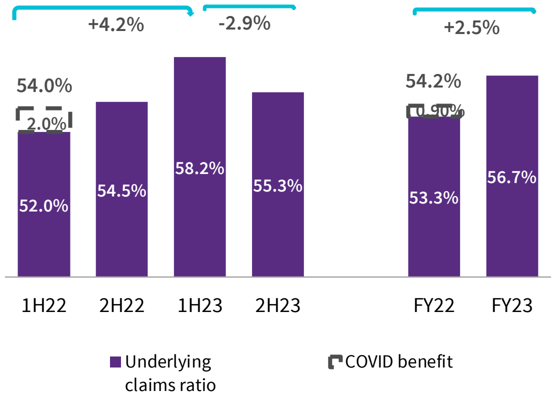
Despite a strong second half and improved expense ratio, the underlying insurance margin for the year fell to 12.6% (FY22: 14.6%). This reflected an increase in the claims ratio due to the inflationary impacts driving a significant increase in the average claims size of motor and homes claims and a higher natural peril allowance.

Driving the improved reported insurance margin was an $85m credit spread gain and stronger second half underlying margin. This was offset by natural perils costs $297m above the FY23 allowance of $909m and a $37m reserve strengthening. 2H23 reported margin was 10.8%, compared to 7.7% in 2H22.

Group expenses remained in line with our target at around $2.5b, resulting in an improved administration expense ratio of 14% (FY22: 14.9%).

Underlying claims ratio

FY23 Underlying claims ratio



Improved 2H23 underlying claims ratio

The underlying claims ratio rose to 56.7% in the year, up from 53.3% in FY22, reflecting the higher claims inflation across the home and motor portfolios, particularly in the first half. The underlying claims ratio improved in the second half to 55.3% (1H23: 58.2%).

Net Profit After Tax (NPAT) of $832m, up from $347m in FY23

The NPAT includes a post-tax $392m business interruption provision release and higher investment returns on our shareholders' funds portfolio. It also reflects a higher full year reported insurance margin.

FY24 Guidance

Confidence in underlying business reflected in FY24 guidance

GWP growth is forecast to be low double-digits. The reported insurance margin guidance is 13.5% to 15.5% and is expected to deliver an insurance profit of between approximately $1.2b and $1.45b. Refer to page 5 for more details on the FY24 guidance and outlook.

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Divisional highlights

Direct Insurance Australia (DIA)

GWP growth of 10%, up from 4.6% in FY22

Strong GWP growth was driven by double digit average premium increases to address high single digit claims inflation across motor and home, as well as higher reinsurance and natural perils costs. Volume growth was 1.2% driven by NSW CTP and the home portfolio. Customer numbers grew approximately 132,000 in the year.

Motor GWP grew 10.2%, reflecting premium rises predominantly, and volume growth of nearly 1% through the RACV brand in Victoria, and strong customer retention.

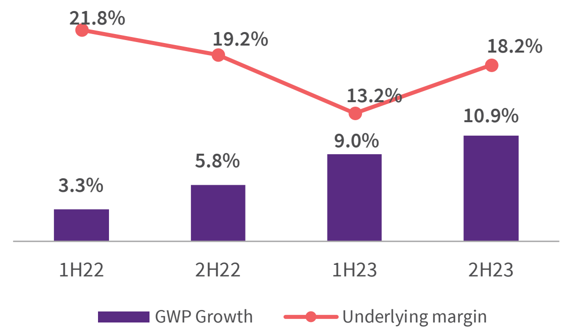
Home GWP rose 12.8% due to premium rises to offset higher claims inflation and included volume growth of around 1% as a result of growth in RACV and the NRMA Insurance roll out in Western Australia.

Reported insurance margin of 14.5%, up from 13% in FY22

The higher reported insurance margin included a stronger 2H23 margin of 20% (2H22: 15.5%) and featured lower natural perils and higher investment returns.

The underlying margin of 15.7% (FY22: ~19% excluding Covid) was affected by a lag in the earn through of premium increases implemented to offset the claims inflation, reinsurance and natural perils impact.

DIA – GWP growth/underlying margin



Intermediated Insurance Australia (IIA)

Robust GWP growth of 12%

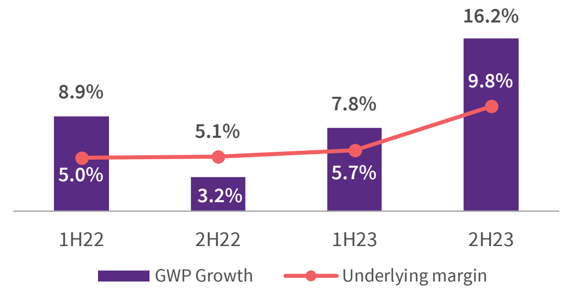
The strong 12% GWP growth (FY22: 6%) was delivered across all major classes on an underlying basis. Premium increases averaging 13% were the dominant driver of growth. Volume growth was achieved in select portfolios and retention remained steady.

Insurance profit of $209m, up from a loss of $103m in FY22

The 7.7% (FY22: 5%) underlying insurance margin reflects improved investment yields and expense ratio, and demonstrates the strong progress towards the insurance profit target of $250m in FY24.

Lower natural perils costs and a significant reduction in prior year strengthening compared to FY22 contributed to the higher insurance profit. The improved profitability was supported by a number of initiatives undertaken by the business including new structured portfolio management practices and the introduction of pricing tools to provide more granular and accurate pricing for our liability and agriculture portfolios.

IIA – GWP growth/underlying margin



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New Zealand

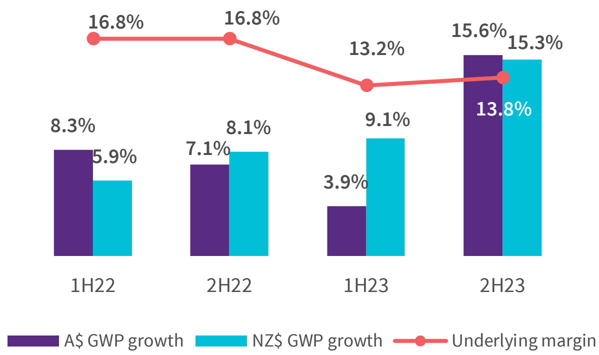
Solid NZ currency GWP growth of ~12%, weaker underlying insurance margin

After allowing for the estimated impact of the Earthquake Commission Cap (EQC) change on 1 October 2022, the underlying local currency GWP grew by 13.8%. GWP growth was predominantly rate driven with volume growth in some commercial lines. Retention rates remained strong across direct and commercial lines.

The Auckland flooding and Cyclone Gabrielle events in 2H23 significantly impacted the full year reported insurance margin which fell to 2.4% (FY22: 12.8%). Approximately 50,000 claims were lodged for both events which were the second and third largest events in New Zealand's history. The majority of these claims are expected to be closed before the end of this calendar year.

The underlying insurance margin fell to 13.5% (FY22: 16.8%) largely reflecting the higher claims and reinsurance costs, and lag in the earn through of premium increases.

New Zealand – GWP growth/underlying margin



Delivering for shareholders

Dividend

FY23 final dividend of 9cps

The IAG Board has declared a final dividend of 9 cents per share (cps), franked to 30% (FY22: 5cps, 70% franked). This brings the full year dividend to 15 cps (FY22: 11cps), which equates to a payout ratio of approximately 83% of reported NPAT, excluding the after-tax impact from releases for the business interruption provision.

IAG's dividend policy is to pay out 60% to 80% of NPAT, excluding the after-tax impact from releases for the business interruption provision.

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 1.12, well above 0.97 in FY22 and higher than the target range of 0.9 to 1.1.

FY24 guidance and outlook

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

	%	$
FY23 Reported margin/insurance profit	9.6	803m
FY23 Underlying margin/insurance profit	12.6	1,052m
FY24 Underlying insurance margin drivers • Net Earned Premium growth • Ongoing claims inflation • Higher investment income • Increase in perils allowance to $1,147m		
FY24 Reported margin/insurance profit	13.5 to 15.5	1,200m to 1,450m

GWP growth guidance of 'low double-digits' will primarily be rate driven to cover claims inflation, higher reinsurance costs and an increased natural perils allowance. The GWP guidance includes expected modest volume growth and an increase in customer numbers.

The reported insurance margin guidance of 13.5% to 15.5% is expected to deliver an insurance profit of between approximately $1.2b and $1.45b, and assumes continued momentum in the underlying performance of IAG's businesses, supported by higher investment yields, and an increase in the natural perils allowance to $1,147m, which represents an increase of $238 million or 26% on the FY23 allowance. The reported insurance margin guidance also assumes no material prior 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 revised 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. As previously outlined, 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 and 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	1H22 A$m	2H22 A$m	1H23 A$m	2H23 A$m	FY22 A$m	FY23 A$m	FY23 vs FY22 Mvt
Gross written premium	**6,570**	**6,747**	**7,061**	**7,668**	**13,317**	**14,729**	**+10.6%**
Gross earned premium	6,515	6,457	6,853	6,985	12,972	13,838	
Reinsurance expense	(2,552)	(2,511)	(2,740)	(2,772)	(5,063)	(5,512)	
Net earned premium	**3,963**	**3,946**	**4,113**	**4,213**	**7,909**	**8,326**	
Net claims expense	(2,725)	(2,490)	(2,911)	(2,955)	(5,215)	(5,866)	
Commission expense	(347)	(347)	(366)	(394)	(694)	(760)	
Underwriting expense	(602)	(574)	(575)	(593)	(1,176)	(1,168)	
Underwriting profit	**289**	**535**	**261**	**271**	**824**	**532**	
Investment income on technical reserves	(7)	(231)	89	182	(238)	271	
Insurance profit	**282**	**304**	**350**	**453**	**586**	**803**	**+37.0%**
Net corporate expense	-	200	353	184	200	537	
Interest	(47)	(46)	(64)	(81)	(93)	(145)	
Profit/(loss) from fee-based business	(13)	(21)	(14)	(23)	(34)	(37)	
Share of profit/(loss) from associates	8	9	(8)	(5)	17	(13)	
Investment income on shareholders' funds	53	(158)	72	140	(105)	212	
Profit/(loss) before income tax and amortisation	**283**	**288**	**689**	**668**	**571**	**1,357**	**+137.7%**
Income tax expense	(77)	(63)	(213)	(216)	(140)	(429)	
Profit/(loss) after income tax (before amortisation)	**206**	**225**	**476**	**452**	**431**	**928**	
Non-controlling interests	(30)	(47)	(6)	(87)	(77)	(93)	
Profit/(loss) after income tax and non-controlling interests (before amortisation)	**176**	**178**	**470**	**365**	**354**	**835**	
Amortisation and impairment	(4)	(3)	(2)	(1)	(7)	(3)	
Profit/(loss) attributable to IAG shareholders from continuing operations	**172**	**175**	**468**	**364**	**347**	**832**	**+139.8%**
Net profit/(loss) after tax from discontinued operations	1	(1)	-	-	-	-	
Profit/(loss) attributable to IAG shareholders	**173**	**174**	**468**	**364**	**347**	**832**	**+139.8%**

	FY22		FY23	
Insurance margin	A$m	%	A$m	%
Management reported insurance result	586	7.4%	803	9.6%
Net natural peril claim costs less allowance	354	4.4%	297	3.6%
Prior year reserve movements	172	2.2%	37	0.4%
Credit spread movements	45	0.6%	(85)	(1.0%)
Underlying insurance result	1,157	14.6%	1,052	12.6%

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