IAG announces FY20 results

7 August 2020

Financial indicators

	FY19	FY20	Change
GWP ($m)	12,005	12,135	1.1%
Insurance profit[1] ($m)	1,224	741	39.5%
Underlying insurance margin[2] (%)	16.6%	16.0%	60bps
Reported insurance margin (%)	16.9%	10.1%	680bps
Fee based business ($m)	(9)	(23)	nm
Shareholders' funds income ($m)	227	(181)	nm
Net profit after tax ($m)	1,076	435	59.6%
Diluted cash EPS (cps)	38.83	12.12	68.8%
Dividend (cps)	32.0	10.0	68.8%
Cash ROE (%)	14.4%	4.5%	990bps
CET1 multiple	1.31	1.23	8bps

Financial performance

"Our top line GWP growth was in line with our guidance, despite incurring a slight negative effect from COVID-19 in the second half from lower new business volumes.

Our FY20 reported margin of 10.1% fell outside our guidance of 12.5-14.5% due to the higher than expected level of natural peril events, a strengthening of our reserves mainly in the liability, professional risks and workers' compensation areas, and credit spread effects. COVID-19 impacts on our underwriting profit largely offset each other.

Our underlying margin was 16.0% (FY19: 16.6%), impacted by a softer second half owing to higher reinsurance costs, lower interest rates continuing to impact investment income, and a poorer performance from our commercial long tail classes in Australia.

The year also saw us successfully exit our investment in India, realising a post-tax profit of $326 million.

This was partially offset by our customer refunds provision of $141 million for the full year compared to an initial $82 million recognised in 1H20. This relates to a number of multi-year pricing issues we identified where some customers did not always receive the full discounts they were entitled to.

We have addressed the underlying cause of the identified issues and have recently started to refund affected customers.

The year also included a relatively severe hit to our investment income, reflecting the volatile market conditions.

Natural perils update

The catastrophic natural peril events we saw over the year had a profound impact on our customers and communities – with the terrible bushfires that swept through Australia, followed by hailstorms in Canterbury and then Melbourne, the ACT and Sydney.

It's been a critical time for our customers, and we responded quickly to each event – increasing the number of people in our customer contact centres and in our claims and repair teams to help customers recover as quickly as possible.

The high level of natural peril activity over the year underscores the importance of climate action, and the mitigation of its effects, to help make our communities safer, and we continue to advocate for businesses, government and communities to work together on this important issue.

The severe natural peril events have of course had a financial impact on our business and in the final quarter, a number of smaller 'attritional' natural perils brought our net natural perils claim costs to $904 million, exceeding our revised guidance of $850 million and original allowance of $641 million.

COVID-19

As we moved into 2020, we prepared for the impact of yet another disaster to confront our communities: COVID-19. We immediately prioritised the wellbeing of our people so they could continue to meet the needs of our customers.

We knew this wasn't a normal crisis, so we set up a COVID-19 team to coordinate our response. Our people were asked to work from home where possible and it's a credit to our technology team that 98%, or 13,300, were doing so by the end of March.

Our customer service levels held steady. We saw an encouraging lift in productivity, energy and engagement across our teams as we worked to support customers and each other.

We introduced measures to support customers and suppliers – focusing on people and businesses suffering hardship as a result of the pandemic.

Strategy

Over the past four years, our strategy has been to simplify and optimise our core insurance business while creating future growth opportunities. We will continue to shift our focus towards customer-led growth – leveraging our data, customer reach and brands to enhance our core insurance business.

The COVID-19 pandemic has accelerated customers' adoption of digital channels and we are assessing the opportunities this presents to build on our existing strategy.

We face the future with the confidence that we have a resilient business and we are well-equipped to rise to the challenges presented by the current environment, as well as the opportunities we see in a post-COVID-19 world."

Peter Harmer
IAG Managing Director and Chief Executive Officer

1 The FY20 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 FY20 Financial Report (Appendix 4E). A reconciliation between the two is provided on page 15 of the Investor Report and on page 7 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's FY20 net profit after tax is the same in this document and in the Financial Report.

2 IAG defines its FY20 underlying insurance margin as the reported insurance margin adjusted for:
– Net natural peril claim costs less related allowance for the period;
– Reserve releases of 1% of NEP; and
– Credit spread movements.

IAG announces FY20 results

7 August 2020

FY20 highlights

GWP growth in line with guidance, softer 2H20 underlying margin

Challenging 2H20 environment

- Low single-digit GWP growth
  - Modest negative COVID-19 effect
- Softer 2H20 underlying margin of 15.1%
  - Largely offsetting COVID-19 impacts on underwriting profit
  - Commercial long tail deterioration
  - Increased reinsurance costs
  - Ongoing pressure from lower interest rates
- Personal lines and New Zealand commercial lines performing well
- Some Australian commercial portfolios underperforming

Reported margin of 10.1% below revised guidance

- Long tail reserve strengthening
- Higher attritional perils in final quarter
- Negative credit spread impact

Progress on Asian divestments

- Sale of interest in SBI General in India realising $326m post-tax profit
- Options for remaining assets continue to be weighed up

Provision for customer refunds

- Increased to $141m post-tax for full year

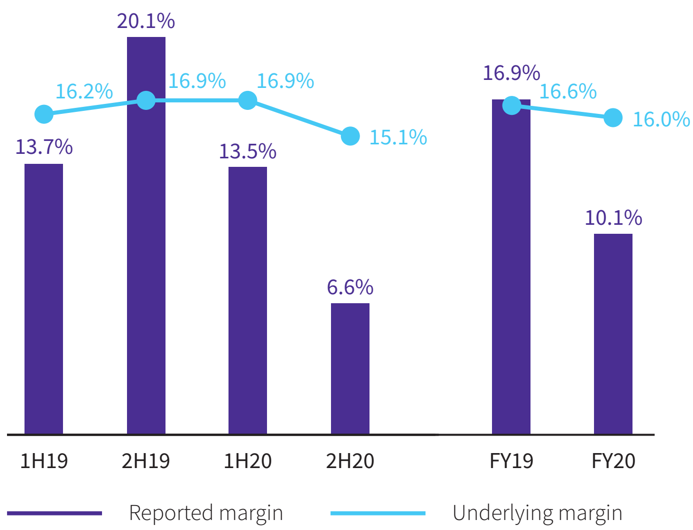
Significant investment market impacts

- Loss on shareholders' funds from 2H20 market volatility, with ~$100m improvement from position indicated as at end of April

Capital position

- CET1 comfortably above benchmark
- No 2H20 dividend declared
  - 1H20 payment slightly above full year 60-80% payout policy

Insurance margin



GWP growth

Putting price through to recover cost increases

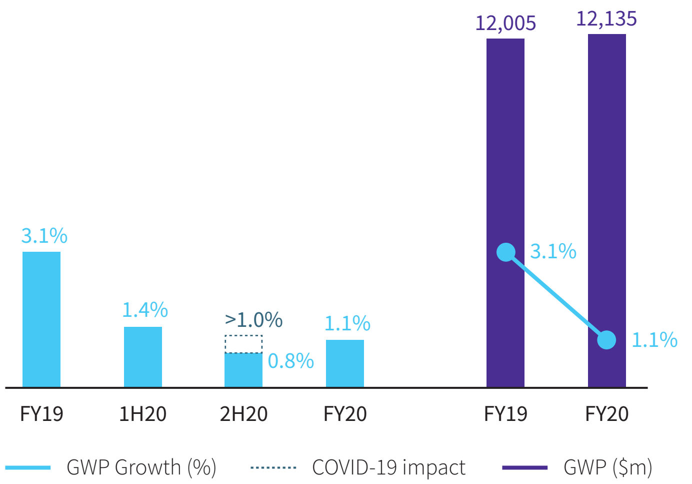
FY20 GWP growth of 1.1%

- ~$80m COVID-19 adverse impact on 2H20 – lower new business volumes
- Absorption of lower CTP pricing and business exit effects

Recent pricing patterns

- Rate increases to broadly match underlying claims inflation in short tail personal lines
- Reduced level of rate growth in New Zealand commercial lines, reflecting profitability of book
- Continued average rate increases in Australian commercial lines of around 5.5%, varying considerably by segment
- Putting price increases through to:
  - Counter cost and investment income pressures
  - Address underperforming portfolios

GWP growth



IAG announces FY20 results

7 August 2020

Underwriting profit

2H20 COVID-19 impacts

Largely offsetting COVID-19 impacts	
Positive (~$150m)	**Negative (~$150m)**
Claims • Lower motor claim frequency, particularly in April and May • Partial offset from claims in other COVID-19 affected classes (e.g. landlords' insurance and travel insurance)	Claims • ~$100m provision for potential COVID-19 claim cost impacts • Highly uncertain and estimated on a probability-weighted basis • Spans business interruption, landlords' and other insurance classes
	Expenses • ~$30m additional expenses – mainly from moving employees to a 'working from home' basis • Closure of AMI branch network in New Zealand (~$20m) – acceleration of customer behaviour trends

Natural perils

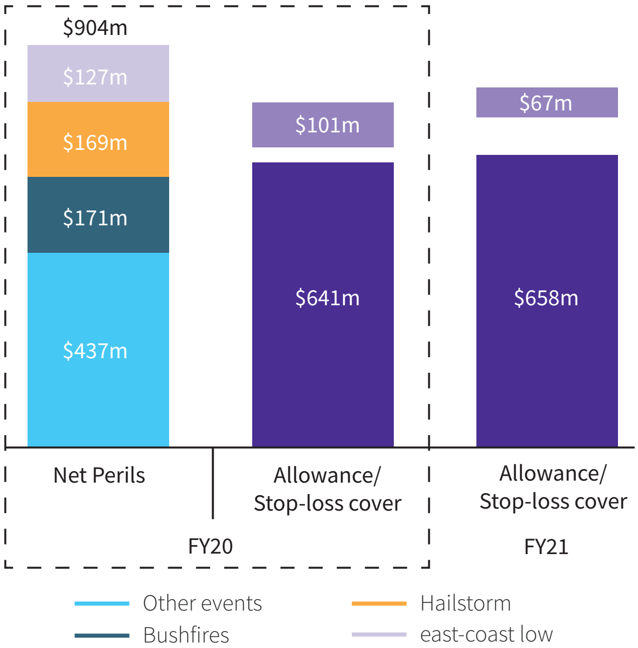
Significant peril activity mitigated by reinsurance

Severe peril activity in FY20

- Full year outcome $263m above allowance
- Significant contributions from:
  - Sequence of bushfire events (September 2019 – January 2020)
  - Major January hailstorm
  - February east coast low
- High level of attritional events
- Outcome assisted by significant reinsurance recoveries
  - Over $700m from range of catastrophe covers

FY21 perils allowance of $658m

- Gross allowance (100%) increased ~2.5% to $975m
- Net (post-quota share) allowance of $658m, up from $641m
- Allows for strong reinsurance protection available in 1H21
  - 2020 aggregate cover active



IAG announces FY20 results

7 August 2020

Operational performance

Australia

Improving GWP trend, softer underlying profitability from long tail classes and investment returns

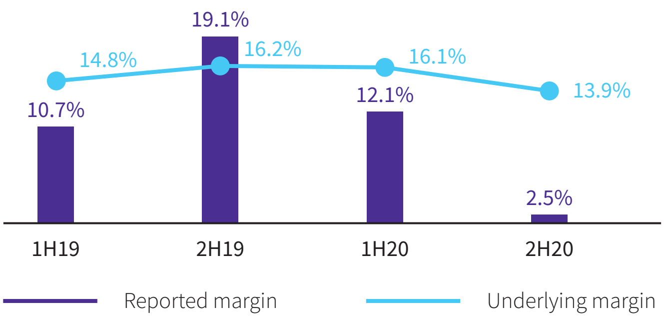
GWP growth of 0.4%

- Improving 2H20 trend (+0.7%) despite ~$60m COVID-19 impact from lower new business volumes
- FY20 absorbed business exit and lower CTP pricing effects
- Rate-driven growth in short-tail personal lines of 3.2%
  - Rate increases largely in line with claims inflation
  - Further volume growth in Victoria
- Commercial GWP 2.9% lower
  - Average rate increase of ~5.5%, lower volumes
  - Lower rate of reduction in 2H20 (-1.4%)

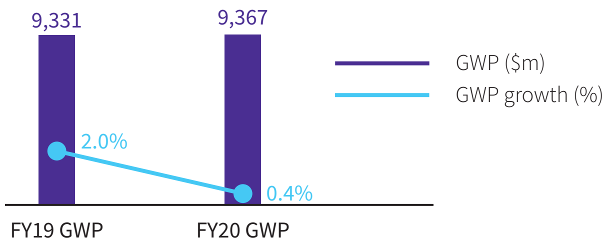
Lower underlying margin of 14.9% (FY19: 15.5%)

- Small net negative impact on underwriting profit from COVID-19 effects
  - Significant motor frequency benefit
  - Partial offset from claims in other classes
  - Provision for potential COVID-19 claim impacts
  - Increased operating costs
- Poor performance in agri and commercial long tail portfolios
- Significantly lower running yield on technical reserves
- Reported margin decline from mix of adverse reserving, peril and credit spread effects

Australia insurance margin



Australia GWP



New Zealand

Strong performance maintained

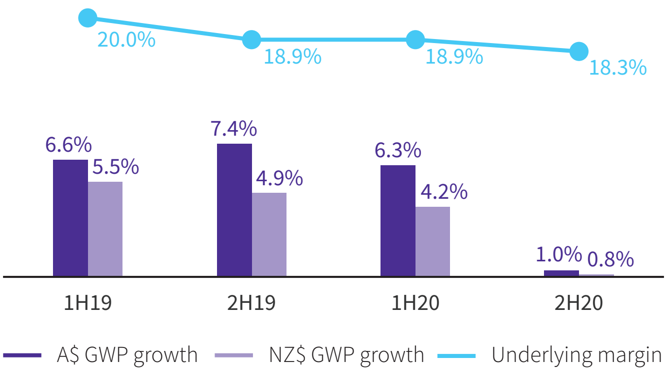
NZ$ GWP growth of 2.4%

- Strong Business growth >5%
  - Higher volume in all key commercial classes
  - Higher rates in property and liability
- Relatively flat Consumer GWP
  - Modest underlying growth excluding EQC changes
  - Ongoing rate and volume growth through AMI brand
- Modest COVID-19 impact of ~$20m mainly from lower new business volumes
- Reported GWP growth of 3.5% – slightly favourable FX effect

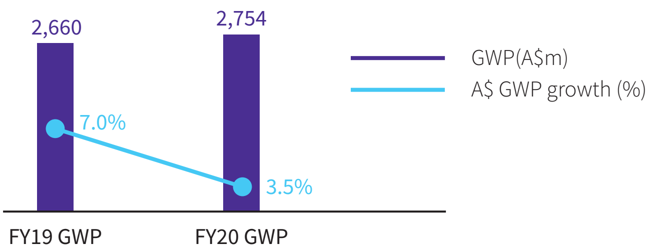
Strong underlying margin of 18.6% (FY19: 19.5%)

- Small net positive impact on underwriting profit from COVID-19 effects
  - Lower motor frequency due to lockdown
  - Increased costs including closure of AMI branches
- Slightly lower 2H20 underlying margin – increased reinsurance expense
- Lower reported margin of 20.2% (FY19: 24.7%)
  - Increased net natural peril claim cost following 1H20 Canterbury hailstorm

New Zealand – GWP growth / underlying margin



New Zealand – GWP



IAG announces FY20 results

7 August 2020

Dividend

Consistent dividend policy applied

FY20 dividend

- Full year dividend of 10 cents per share (FY19: 32cps)
  - Interim dividend of 10 cents paid in March
  - No final dividend
- 82.8% of cash earnings
- Negative cash earnings in 2H20

Adherence to long-term payout policy

- 60-80% of cash earnings
- Cash earnings comprises:
  - Net profit after tax attributable to IAG shareholders
  - Plus amortisation and impairment of acquired identifiable intangibles
  - Excluding any unusual items
- Absorbs all investment market, natural peril claim cost and prior period reserving impacts

Future franking capacity

- Limited franking level expected short term
- Reflects expected temporary absence of Australian taxable earnings in FY20

COVID-19 operating response

Customers

- Deferred premium payments for home, motor and small business customers experiencing financial hardship
- Offered options such as policy changes, premium reductions, waived cancellation fees and waived/reduced excess fees
- Travel insurance refunds
- Free and confidential phone counselling service
- Accelerated employee training to help employees identify and assist customers experiencing vulnerability and financial hardship
- Customer Care Team established in New Zealand

Employees

- >98% of staff working from home
- Up to 400 additional people employed locally in customer facing roles
- Provided one-off allowance to assist with expense of setting up a home workspace, and monthly allowance towards utility usage
- Extended employee flu vaccination program to employees' families

Partners

- Reduced payment times for suppliers
- Working with supply chain partners to ensure customer support through claims process
- Introduced initiatives to support broker partners, including free counselling services, professional development and digital marketing campaign support

Community

- $4m community investment in organisations to address domestic violence and mental health
- In Australia, supported the Australian Red Cross' COVID CONNECT program – employees volunteering their time to call vulnerable people
- In New Zealand, IAG volunteers joined the Red Cross to pack parcels containing a range of essential items

IAG announces FY20 results

7 August 2020

IAG financial performance

Group results	1H19 A$m	2H19 A$m	1H20 A$m	2H20 A$m	FY19 A$m	FY20 A$m	FY20 vs FY19 Mvt
Gross written premium	**5,881**	**6,124**	**5,962**	**6,173**	**12,005**	**12,135**	**+1.1%**
Gross earned premium	5,984	5,958	6,105	6,059	11,942	12,164	
Reinsurance expense	(2,373)	(2,331)	(2,396)	(2,405)	(4,704)	(4,801)	
Net earned premium	**3,611**	**3,627**	**3,709**	**3,654**	**7,238**	**7,363**	
Net claims expense	(2,358)	(2,261)	(2,433)	(2,577)	(4,619)	(5,010)	
Commission expense	(324)	(351)	(337)	(336)	(675)	(673)	
Underwriting expense	(535)	(506)	(519)	(565)	(1,041)	(1,084)	
Underwriting profit	**394**	**509**	**420**	**176**	**903**	**596**	
Investment income on technical reserves	102	219	81	64	321	145	
Insurance profit	**496**	**728**	**501**	**240**	**1,224**	**741**	**-39.5%**
Net corporate expense	5	(9)	(152)	213	(4)	61	
Interest	(48)	(46)	(54)	(38)	(94)	(92)	
Profit/(loss) from fee-based business	5	(14)	(2)	(21)	(9)	(23)	
Share of profit from associates	19	26	29	30	45	59	
Investment income on shareholders' funds	(7)	234	50	(231)	227	(181)	
Profit before income tax and amortisation	**470**	**919**	**372**	**193**	**1,389**	**565**	**-59.3%**
Income tax expense	(123)	(240)	(90)	53	(363)	(37)	
Profit after income tax (before amortisation)	**347**	**679**	**282**	**246**	**1,026**	**528**	
Non-controlling interests	(25)	(73)	20	(79)	(98)	(59)	
Profit after income tax and non-controlling interests (before amortisation)	**322**	**606**	**302**	**167**	**928**	**469**	
Amortisation and impairment	(29)	(28)	(15)	(15)	(57)	(30)	
Profit attributable to IAG shareholders from continuing operations	**293**	**578**	**287**	**152**	**871**	**439**	**-49.6%**
Net profit/(loss) after tax from discontinued operations	207	(2)	(4)	–	205	(4)	
Profit attributable to IAG shareholders	**500**	**576**	**283**	**152**	**1,076**	**435**	**-59.6%**

Insurance margin	FY19 A$m	FY19 %	FY20 A$m	FY20 %
Management reported insurance margin	1,224	16.9%	741	10.1%
Net natural peril claim costs less allowance	19	0.3%	263	3.6%
Reserve releases in excess of 1% of NEP	(54)	(0.7%)	122	1.7%
Credit spread movements	6	0.1%	46	0.6%
Underlying insurance margin	1,195	16.6%	1,172	16.0%

Contacts

Media
Amanda Wallace
Mobile. +61 (0)422 379 964
Email. amanda.wallace@iag.com.au

Investor Relations
Simon Phibbs
Telephone. +61 (0)2 9292 8796 Mobile. +61 (0)411 011 899
Email. simon.phibbs@iag.com.au