News Release

23 July 2021

IAG outlines preliminary FY21 results and introduces FY22 guidance

IAG today provided an update on its preliminary FY21 results which will be released in full on 11 August 2021 and reintroduced guidance for the financial year to 30 June 2022.

The preliminary results, which are subject to finalisation of audit and Board approval, reflect sound underlying financial performance offset by a number of unusual items, resulting in a reported net loss.

IAG Managing Director and CEO Nick Hawkins said:

"Our underlying financial results for the year are sound and within expectations. However, we have had challenges with issues that have been identified and provisioned for in our preliminary results.

"We have at our core a strong insurance business with trusted market leading brands, and we have worked hard and acted decisively to put in place changes that address these challenges and enable us to better deliver to our shareholders, employees, customers and our communities.

"I have built a strong leadership team with deep insurance and customer expertise and clear accountability for success. We have a new organisational structure that more clearly aligns the business with our customers, and we have a clear growth strategy for the future.

"The confidence we have with the business and outlook have allowed for the reintroduction of guidance for FY22, where I expect an improvement in our adjusted underlying performance from FY21," Mr Hawkins said.

Comparative segmental results for 1H20, 2H20 and 1H21 under IAG's new operating model have also been included as part of this release.

Preliminary FY21 financial highlights

IAG expects its preliminary FY21 results will contain the following features:

- Gross Written Premium (GWP) growth of 3.8%, including a 2H21 growth rate of 3.9% and negligible 2H21 GWP COVID-19 impacts;
- Net Earned Premium of $7,473 million, growth of 1.5% on FY20;
- An underlying insurance margin[1] of 14.7% (FY20: 16.0%), including a second half result of 13.5%;

[1] IAG defines its underlying insurance margin as the reported insurance margin adjusted for:
- Prior period reserve strengthening/releases;
- Net natural peril claim costs less related allowance for the period;
- For FY20 an allowance for reserve releases of 1% of NEP, with no allowance in FY21; and
- Credit spread movements.

- A reported insurance margin[2] of 13.5% (FY20: 10.1%):
  - Net natural peril claim costs of $742 million, in line with the update provided on 16 June 2021 ($720 million to $743 million);
  - Prior period reserve strengthening of $81 million (FY20: $48 million) driven by adverse development in commercial long tail reserves in Australia;
  - A positive credit spread impact of $77 million (FY20: $46 million negative); and
  - A net benefit of around $60-$70 million from COVID-19 effects in 1H21 and a negligible net impact in 2H21;
- A pre-tax gain on shareholders' funds income of $306 million (FY20: loss of $181 million);
- A reported net loss of $427 million (FY20: net profit of $435 million), with a reported profit of $33 million in 2H21; and
- Cash earnings of $747 million (FY20: $279 million), which excludes provision changes and other items identified in the net corporate expense line, $200 million (pre-tax) of which was recorded in 2H21. IAG's dividend policy is to pay out 60-80% of cash earnings on a full year basis.

The predominant impact from the COVID-19 pandemic occurred in 1H21, where it is estimated to have had a modestly negative effect on IAG's GWP and a net positive impact on its insurance profit. No material overall impact was experienced in 2H21.

The underlying insurance margin of 13.5% in 2H21 compares to 15.9% in 1H21, which included the net benefit of $60-$70 million from COVID-19 effects. Excluding the COVID-19 benefit, the 1H21 adjusted underlying margin was 14.2%. The reduction to 13.5% in 2H21 includes additional expenses associated with IAG's new operating model, property consolidation costs in New Zealand (both of which are not expected to recur) and a reversal of the relatively benign large loss experience in New Zealand during 1H21, with the full year experience being broadly in line with expectations.

Prior period reserve strengthening

Prior period reserve strengthening of $81 million occurred in FY21 (1H21: $15 million) compared to a strengthening of $48 million in FY20. This outcome reflected more adverse claim development across long tail classes than observed in recent years, particularly across the commercial liability portfolio where a sharp deterioration in average claim size has emerged.

The overall strengthening in FY21 reflects offsetting elements across IAG's businesses:

- Prior year reserve deterioration of $119 million occurred mainly across commercial classes in Intermediated Insurance Australia (IIA) (1H21: $34 million). Adverse trends appear to be driven by systemic issues where mixed economic conditions have enhanced focus on personal injury compensation. More specifically, the deterioration in IIA included:
  - ~$75 million of strengthening related to liability classes, mainly due to higher average claim sizes in recent accident years, as claim frequency has improved (~$25m in 1H21);
  - ~$50 million of professional risk reserve strengthening (~$30 million in 1H21);

[2] The FY21 reported insurance margin indicated in this announcement is presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure that will appear in IAG's FY21 Financial Report (Appendix 4E). On a statutory basis the reported insurance margin is expected to be negative 5.8% (a reduction of 1260bps), after inclusion of the $1150 million business interruption provision, $238 million customer refund provision and $51 million payroll compliance provision.

- ~$20 million of workers' compensation reserve strengthening driven by extended duration of claims and moderately higher frequency (~$15 million in 1H21); partially offset by
- Some positive claim settlements in commercial and personal short tail classes of around $25 million, which mostly occurred in 1H21 (~$35 million in 1H21).

- Releases were reported for personal classes in New Zealand of $36 million in FY21 (1H21: $18 million) reflecting favourable working claims development.

FY21 Net corporate expense

IAG expects to record a pre-tax net corporate expense of $1,510 million in FY21, which includes $200 million recorded in the second half.

NET CORPORATE EXPENSE - SUBJECT TO AUDIT AND BOARD APPROVAL	1H21 A$m	2H21 A$m	FY21 A$m
Business interruption provision	1,150	-	1,150
Customer refund provision	75	163	238
Payroll compliance provision	-	51	51
Swann class action	68	(28)	40
Other	17	14	31
Total pre-tax net corporate expense	1,310	200	1,510
Tax effect on net corporate expense	(394)	(56)	(450)
Net corporate expense after tax	**916**	**144**	**1,060**

- **Business interruption provision**
  - A pre-tax charge of $1.15 billion was included in the net corporate expense line in 1H21. No further change to the net central estimate or provision has been made as at 30 June 2021.
  - Extensive scenario testing of the adequacy of the provision was undertaken in 2H21. This included comparison of actuarial estimates to client advised loss estimates for lodged claims, consideration of the stronger economic rebound and consideration of the impact of a number of short duration lockdowns which occurred across Australia's major cities in 2H21.

- **Customer refund provision**
  - A pre-tax charge of $238 million in FY21 for customer refunds, with $163 million recognised in 2H21 (1H21: $75 million; FY20: $246 million).
  - An ongoing proactive review of pricing systems and processes led to a pre-tax provision being raised in FY20 and 1H21 for multi-year pricing issues identified by IAG where discounts to premiums were not always applied in full.
  - IAG has finalised the identification phase of the review and has updated the provision to reflect the latest position of the refund programs and estimated whole of program administration costs.
  - Significant levels of estimation and judgement are required in respect of this provision. An additional charge of $80 million has been included in the provision, which has increased the component for uncertainty to $100 million, being our best estimate of the downside risk associated with the ongoing work.
  - The remediation program will complete over the next 12 to 24 months.

- **Payroll compliance provision**
  - As previously disclosed as a contingent liability, IAG has been conducting an ongoing payroll compliance review in Australia and Singapore across a number of its payroll-related procedures, to identify where employees may not have received their full entitlements. Remediation payments to current and former employees identified by the review have commenced.
  - A pre-tax charge of $51 million for remediation payments and related costs has been recognised in FY21.
- **Swann class action**
  - A pre-tax charge of $68 million was included in net corporate expense in 1H21, inclusive of all related costs and after insurance recoveries.
  - Recoveries collected in 2H21 exceeded the original estimate, which has resulted in the pre-tax charge being revised down to $40 million.
- **Other**
  - This includes a provision for redundancies and other costs associated with IAG's exit from its role as agent under the Victorian workers' compensation scheme of $17 million (as previously disclosed) and a $12 million loss on the sale of Dynamiq on 30 April 2021, a wholly owned subsidiary involved in global risk management.

AmGeneral impairment

IAG announced on 19 July 2021 that AmGeneral Holdings Berhad, the Malaysian business in which it holds a 49% interest, had signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad and expects to incur a loss. This investment has been classified as 'Held for Sale' and an impairment of approximately $90 million has been recognised in amortisation and impairment. The sale is expected to result in an increase in IAG's regulatory capital position of approximately $150 million at completion which is expected to occur in financial year ending 30 June 2022.

Capital

IAG remains in a strong capital position, with an anticipated CET1 ratio of 1.06 at 30 June 2021. This has reduced from 1.19 at 31 December 2020 which reflects the payment of the interim dividend, preliminary net profit in 2H21, and an increase in anticipated capital risk charges.

FY22 Guidance

IAG is reintroducing guidance given the sound underlying financial performance in FY21, the new operating model now embedded with new executive responsibilities, and less uncertainty in the economic outlook. Guidance for FY22 includes the following:

- GWP guidance for 'low single-digit' growth in FY22. This incorporates modest growth in customer numbers in Direct Insurance Australia (DIA), ongoing rate increases across personal and commercial lines and further portfolio remediation which is expected to constrain IIA volume growth;
- Reported insurance margin guidance of 13.5 – 15.5%. Assumptions supporting this include:
  - An improvement in the underlying margin on a like-for-like basis, after adjusting for the favourable net impact of COVID-19 benefits in FY21, particularly in IIA where underlying profitability is expected to continue to recover;

- An increase in the natural perils allowance to $765 million (post-quota share) reflecting underlying exposure growth. This has increased from $658 million in FY21 which benefitted from additional reinsurance cover provided by the calendar year 2020 aggregate catastrophe cover;
- No allowance for prior period reserve releases or strengthening; and
- No material movement in foreign exchange rates or investment markets.

"While our adjusted underlying FY21 performance delivered an insurance margin of around 14%, I'm confident that, with the steps we have in place, we will deliver business and customer growth," Mr Hawkins said.

"Our direct insurance businesses in Australia and New Zealand are growing and we expect this growth to continue as we build out our premium brands across Australia.

"We recognise that our Intermediated business has underperformed which is why I have set specific goals for this business to simplify its structure, upgrade its risk and underwriting disciplines, further strengthen relationships with broker partners, and improve its financial returns."

Segmental reporting disclosure

IAG announced on 2 November 2020 that the previous Australia Division would be split into DIA and IIA, effective from that date. As previously reported, IAG will report separate results for the two new divisions as part of the FY21 result. Comparative results for 1H20, 2H20 and 1H21 have been provided with this release.

The business entities and products that form DIA and IIA accounted for 46% and 32% of Group GWP respectively in 1H21. As previously indicated, profitability is currently firmly skewed in favour of DIA. In addition, the following should be noted:

- Reported and underlying margins in DIA were elevated in 2H20 and 1H21, primarily from previously highlighted COVID-19 benefits due to lower motor claim frequency;
- IIA's reported and underlying margins in 2H20 were impacted by the provision for COVID-19 claims costs of approximately $100 million; and
- Excluding the COVID-19 effect in 2H20, IIA's underlying margin was negligible and recovered to around 4% in 1H21, as higher rates earned through.

FY21 results announcement

IAG will announce its final FY21 results on 11 August 2021 following completion of audit and Board approval.

This release has been authorised by the Board of Insurance Australia Group Limited.

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia and New Zealand. The Group's businesses underwrite over $12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). IAG also has an interest in a general insurance joint venture in Malaysia. For further information, please visit www.iag.com.au.

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PRELIMINARY RESULTS - SUBJECT TO AUDIT AND BOARD APPROVAL	DIRECT INSURANCE AUSTRALIA				INTERMEDIATED INSURANCE AUSTRALIA				NEW ZEALAND			
SEGMENTS PERFORMANCE	1H20 A$m	2H20 A$m	1H21 A$m	FY20 A$m	1H20 A$m	2H20 A$m	1H21 A$m	FY20 A$m	1H20 A$m	2H20 A$m	1H21 A$m	FY20 A$m
Gross written premium	**2,751**	**2,782**	**2,857**	**5,533**	**1,857**	**1,977**	**1,962**	**3,834**	**1,348**	**1,406**	**1,368**	**2,754**
Gross earned premium	2,751	2,740	2,821	5,491	1,988	1,937	2,002	3,925	1,357	1,376	1,362	2,733
Reinsurance expense	(1,061)	(1,083)	(1,102)	(2,144)	(798)	(752)	(796)	(1,550)	(533)	(565)	(566)	(1,098)
Net earned premium	**1,690**	**1,657**	**1,719**	**3,347**	**1,190**	**1,185**	**1,206**	**2,375**	**824**	**811**	**796**	**1,635**
Net claims expense	(1,165)	(1,020)	(1,046)	(2,185)	(775)	(1,121)	(787)	(1,896)	(485)	(434)	(450)	(919)
Commission expense	(51)	(49)	(51)	(100)	(194)	(193)	(191)	(387)	(90)	(92)	(94)	(182)
Underwriting expense	(232)	(273)	(257)	(505)	(188)	(167)	(183)	(355)	(99)	(124)	(98)	(223)
Underwriting profit/(loss)	**242**	**315**	**365**	**557**	**33**	**(296)**	**45**	**(263)**	**150**	**161**	**154**	**311**
Investment income on technical reserves	43	27	56	70	31	25	39	56	6	13	8	19
Insurance profit/(loss)	**285**	**342**	**421**	**627**	**64**	**(271)**	**84**	**(207)**	**156**	**174**	**162**	**330**
Profit/(loss) from fee-based business	(2)	(14)	(9)	(16)	8	(3)	4	5	-	-	-	-
Share of profit/(loss) from associates	-	(1)	(1)	(1)	-	-	-	-	-	-	-	-
Total divisional result	**283**	**327**	**411**	**610**	**72**	**(274)**	**88**	**(202)**	**156**	**174**	**162**	**330**

Insurance Ratios	1H20	2H20	1H21	FY20	1H20	2H20	1H21	FY20	1H20	2H20	1H21	FY20
Loss ratio	68.9%	61.6%	60.8%	65.3%	65.1%	94.6%	65.3%	79.8%	58.9%	53.5%	56.5%	56.2%
Immunised loss ratio	68.9%	59.4%	60.5%	64.2%	65.1%	91.8%	64.9%	78.4%	59.0%	53.0%	56.5%	56.0%
Expense ratio	16.7%	19.5%	18.0%	18.1%	32.1%	30.4%	31.0%	31.2%	22.9%	26.6%	24.1%	24.7%
Commission ratio	3.0%	3.0%	3.0%	3.0%	16.3%	16.3%	15.8%	16.3%	10.9%	11.3%	11.8%	11.1%
Administration ratio	13.7%	16.5%	15.0%	15.1%	15.8%	14.1%	15.2%	14.9%	12.0%	15.3%	12.3%	13.6%
Combined ratio	85.6%	81.1%	78.8%	83.4%	97.2%	125.0%	96.3%	111.0%	81.8%	80.1%	80.6%	80.9%
Immunised combined ratio	85.6%	78.9%	78.5%	82.3%	97.2%	122.2%	95.9%	109.6%	81.9%	79.6%	80.6%	80.7%
Reported insurance margin	16.9%	20.6%	24.5%	18.7%	5.4%	(22.9%)	7.0%	(8.7%)	18.9%	21.5%	20.4%	20.2%
Underlying insurance margin	23.0%	29.4%	23.2%	26.1%	6.3%	(7.8%)	3.8%	(0.7%)	18.9%	18.3%	18.6%	18.6%

INSURANCE MARGIN IMPACTS	1H20 A$m	2H20 A$m	1H21 A$m	FY20 A$m	1H20 A$m	2H20 A$m	1H21 A$m	FY20 A$m	1H20 A$m	2H20 A$m	1H21 A$m	FY20 A$m
Reserve releases/(strengthening)	(12)	32	1	20	5	(89)	(34)	(84)	14	4	18	18
Natural perils	(226)	(280)	(153)	(506)	(136)	(184)	(86)	(320)	(57)	(21)	(51)	(78)
Natural perils allowance	148	150	145	298	129	128	137	257	43	43	47	86
Credit spreads	4	(31)	30	(27)	3	(22)	21	(19)	-	-	-	-
Reserve releases/(strengthening)	(0.7%)	1.9%	0.1%	0.6%	0.4%	(7.5%)	(2.8%)	(3.5%)	1.7%	0.5%	2.3%	1.1%
Natural perils	(13.4%)	(16.9%)	(8.9%)	(15.1%)	(11.4%)	(15.5%)	(7.1%)	(13.5%)	(6.9%)	(2.6%)	(6.4%)	(4.8%)
Natural perils allowance	8.8%	9.1%	8.4%	8.9%	10.8%	10.8%	11.4%	10.8%	5.2%	5.3%	5.9%	5.3%
Credit spreads	0.2%	(1.9%)	1.7%	(0.8%)	0.3%	(1.9%)	1.7%	(0.8%)	-	-	-	-