This release has been authorised by the IAG Board

Financial results

Full year ended 30 June 2022

12 August 2022

Nick Hawkins
Managing Director and Chief Executive Officer

Michelle McPherson
Chief Financial Officer

Important information

This report contains general information current as at 12 August 2022 and is not a recommendation or advice in relation to any product or service offered by Insurance Australia Group Limited (IAG) or its subsidiaries. It presents financial information on both a statutory basis (prepared in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis. This report is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction.

The report should not be relied upon as advice as it does not take into account the financial situation, investment objectives or particular needs of any person. The report should be read in conjunction with IAG's other periodic and continuous disclosure announcements filed with the Australian Securities Exchange (available at www.iag.com.au) and investors should consult with their own professional advisers.

No representation or warranty, express or implied, is made as to the accuracy, adequacy, completeness or reliability of any statements (including forward-looking statements or forecasts), estimates or opinions, or the accuracy or reliability of the assumptions on which they are based.

Any forward-looking statements, opinions and estimates in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. This includes statements regarding IAG's targets, goals, ambitions, intent, belief, objectives and current expectations regarding IAG's business, results, financial condition, capital adequacy, risk management practices and market conditions.

Forward-looking statements may generally be identified by the use of words such as "should", "would", "could", "will", "may", "expect", "intend", "plan", "forecast", "aim", "anticipate", "believe", "outlook", "estimate", "project", "target", "goal", "ambition", "continue", "guidance" or other similar words. While IAG believes the forward-looking statements to be reasonable, such statements involve risks (both known and unknown) and assumptions, many of which are beyond IAG's control ([including disruptions stemming from outbreaks of COVID-19 and global economic uncertainties]). This may cause actual results, outcomes, conditions or circumstances to differ from those expressed, anticipated or implied in such statements.

In addition, there are particular risks and uncertainties associated with implementation of IAG's strategy and related targets and goals. As the targets and goals span a number of years, they are subject to assumptions and dependencies which have greater levels of uncertainty than guidance given for FY23. IAG's ability to execute its strategy and realise its targets and goals will depend upon its ability to respond and adjust its business plans (as and when developed) to any changes in such assumptions and dependencies, including disruptions or events that are beyond IAG's control.

Neither IAG, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this report will actually occur and undue reliance should not be placed upon such statements. IAG assumes no obligation to update such information (except as required by law). Past performance is no guarantee or indication of future performance.

To the maximum extent permitted by law, IAG and its subsidiaries and each of its and their respective directors, officers, employees, agents and advisers disclaim all liability and responsibility for any direct or indirect loss, costs or damage which may be suffered by any recipient through use of or reliance on anything contained in, implied by or omitted from this report.

References to currency are to Australian dollars, unless otherwise specified. Prevailing exchange rates have been used to convert local currency amounts into Australian dollars, where appropriate.

Further information, including IAG's business structure, portfolio and partnerships is available on IAG's website at https://www.iag.com.au/about-us/what-we-do

.

Overview

▶ ▶ ▶ ▶ ▶

Nick Hawkins

Managing Director and
Chief Executive Officer

FY22 results overview

GWP
$13.3bn
Strong rate increases and customer growth

Underlying margin
14.6%
Positive underlying margin momentum

Reported margin
7.4%
Impacted by natural perils, reserve strengthening and investment markets

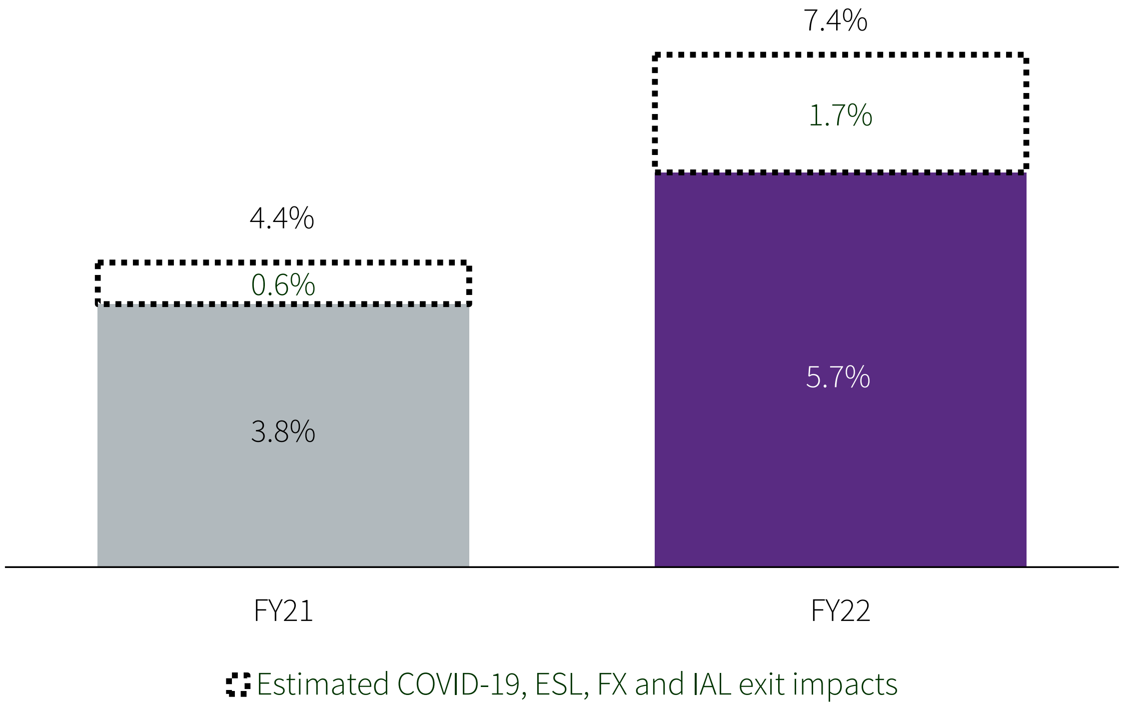
Net profit after tax
$347m

CET1 ratio
0.97x
Within target range, and additional pro-forma 6pts from Malaysian sale

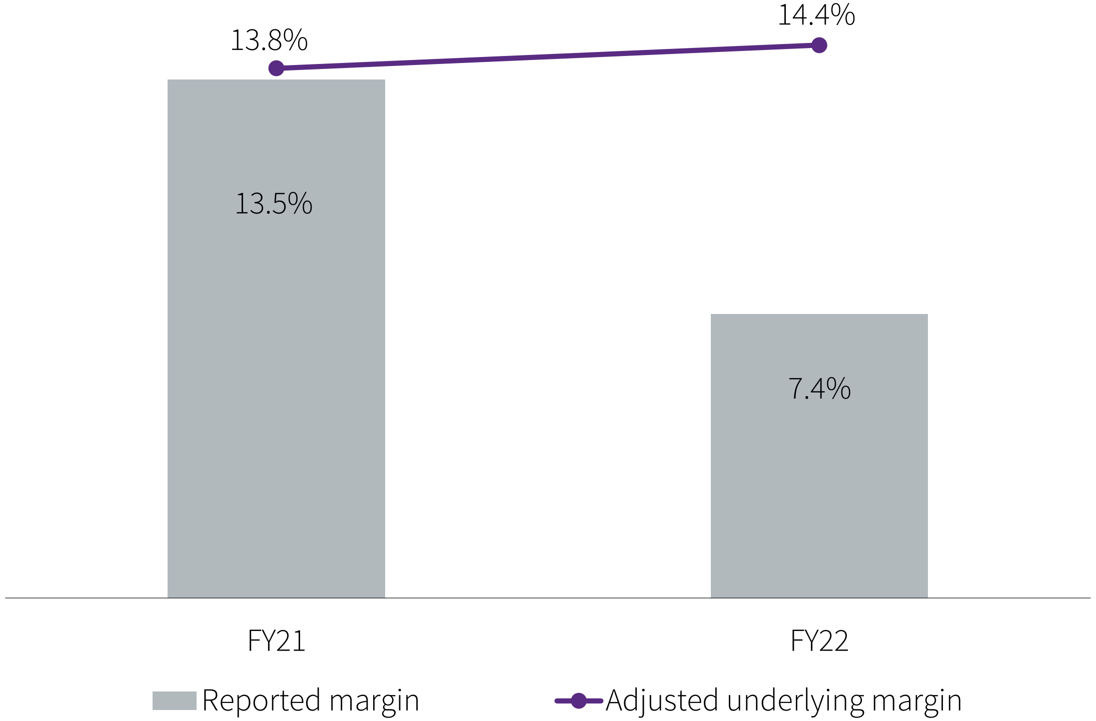
FY23 guidance
Strong momentum
GWP growth 'mid-to-high single digit', reported margin 14-16%

FY22 group highlights strong GWP trends and steady underlying margin performance

GWP growth



Insurance margin[1]



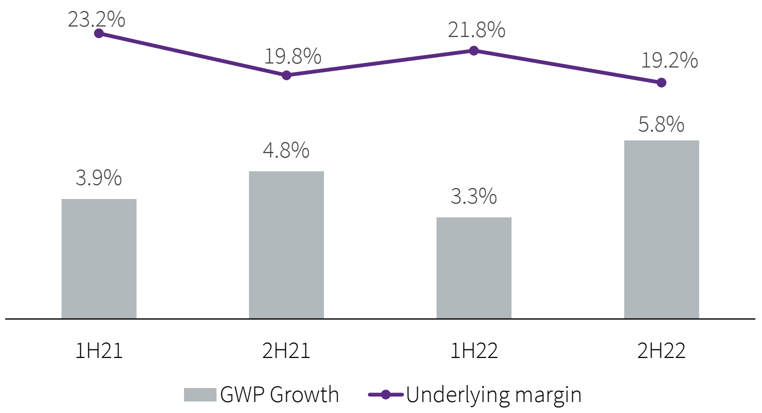
(1)IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; prior period reserve releases or strengthening and credit spread movements. The adjusted underlying margin also excludes COVID-19 and discount rate timing impacts. A reconciliation is contained in Appendix 2.

Divisional highlights

Direct Insurance Australia (DIA)

- ~100k additional customers in direct brands
- Pricing for claims inflation, higher peril allowance and reinsurance costs (GWP growth ex-ESL: motor 6.4%, home 8.6%)
- Improvement on already strong motor and home retention

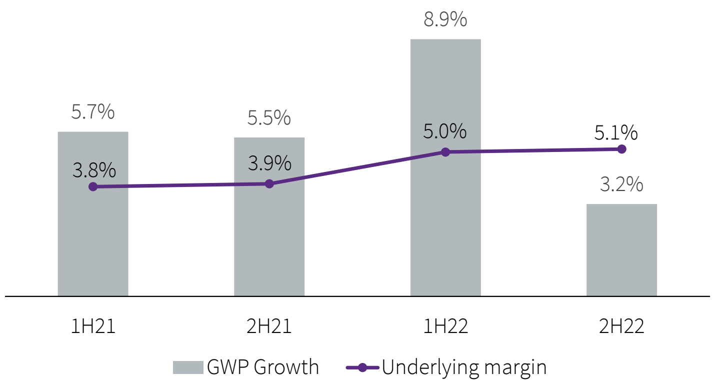
GWP growth / underlying margin[1]



Intermediated Insurance Australia (IIA)

- ~9% premium rate increases
- IAL exit (FY22: GWP ~$140m impact) with benefits to flow through in FY23
- Current year impact from strengthened commercial liability assumptions

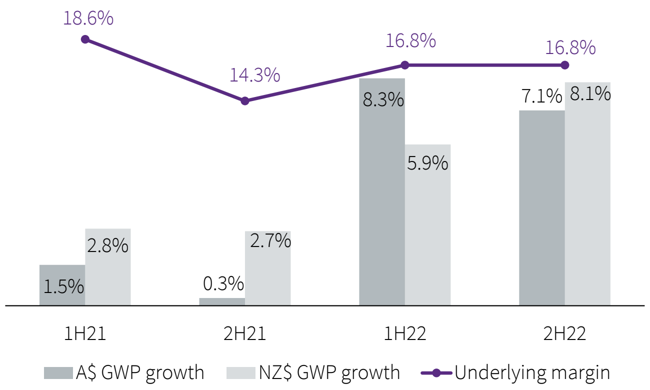
GWP growth / underlying margin[1]



New Zealand

- Positive GWP momentum
- NZ$ GWP growth of 7.0%
- Disciplined cost management
- Stable underlying margin performance

GWP growth / underlying margin[1]



(1) IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; prior period reserve releases or strengthening and credit spread movements.

Delivering our strategy **execution phase on track**

	FY22 Progress	FY23 Focus
Grow with our customers	• ~100k additional customers in DIA with national[1] launch of NRMA • Positioned NZ for direct brand growth through marketing, pricing and product initiatives	• Target under-represented areas using pricing and product capability • Redesign digital sales experience to increase conversion • Innovate SME Direct product across Australia and NZ
Build better businesses	• Established IIA Underwriting Office and centralised pricing teams • Expanded Motorserve (AU) and Repairhub (AU/NZ) • Acquired First Rescue, enabling NZ 24/7 roadside assistance	• Implement IIA portfolio optimisation plans • Deploy updated pricing tools and harmonise product offerings • Continue expansion of Motorserve (AU) and Repairhub (AU/NZ), • Consolidate and leverage NZ First Rescue • ESG commitments including net zero by 2050
Create value through digital	• Enterprise Platform rollout more than half-way complete in DIA • Online claims tracker for NRMA motor Insurance customers • Enhanced SME digital solutions and product offerings	• Single Claims, Pricing and Policy engines in Eastern States and NZ • Claims modernisation focussed on digital, automation and AI • Continue investment in broker connectivity and automation
Manage our risks	• Improved risk management maturity with strengthened controls and clear executive accountability • Integrated Risk Management system implemented • Strengthened underwriting capability and governance • Renewed quota-share arrangements	• Continue to uplift risk maturity and embed risk culture • Renew long-term quota share arrangements

1. Excluding Victoria where RACV distributes Direct Personal Lines products on behalf of Insurance Manufacturers Association.

Financials

▸ ▸ ▸ ▸ ▸

Michelle McPherson

Chief Financial Officer

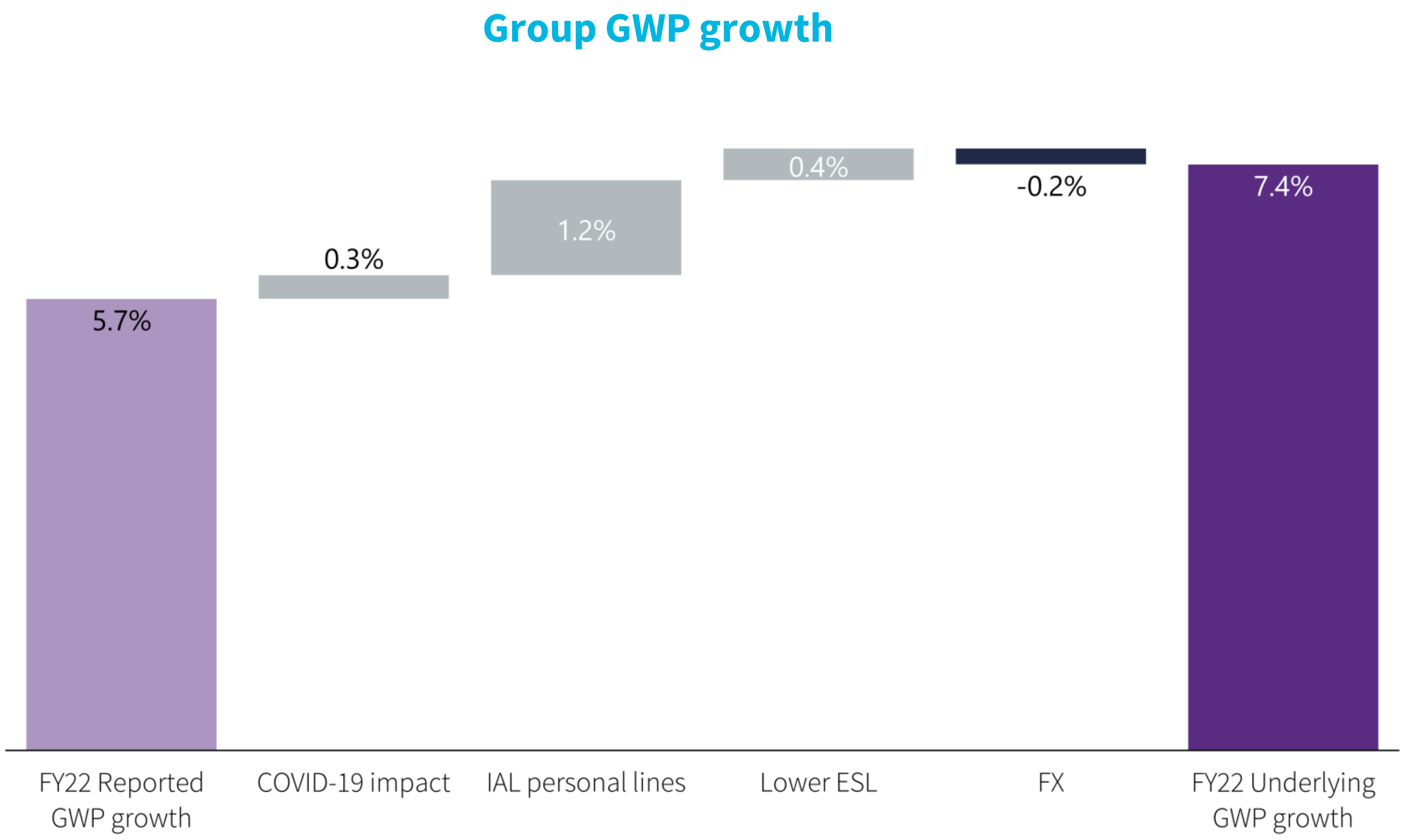
Financial summary

	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

nm – not meaningful

[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 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 claim costs less the related allowance; prior period reserve releases or strengthening and credit spread movements.

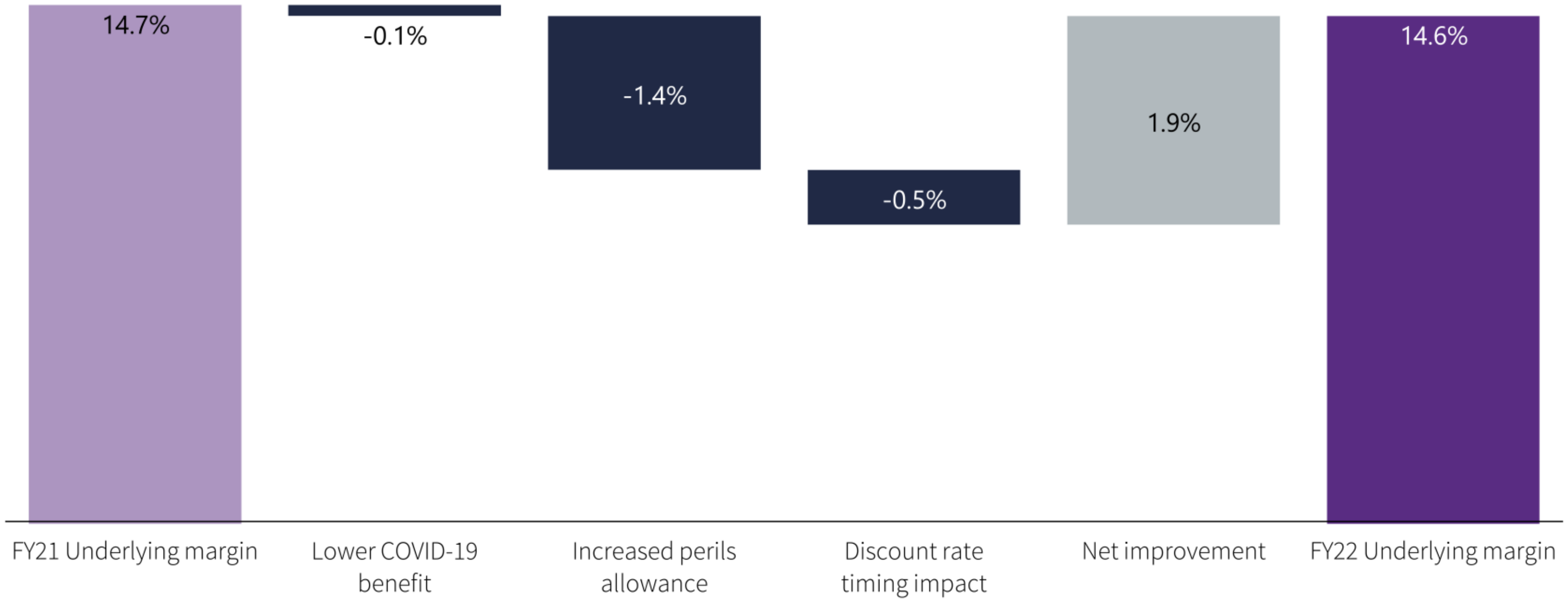
Strong premium momentum retention continuing to increase



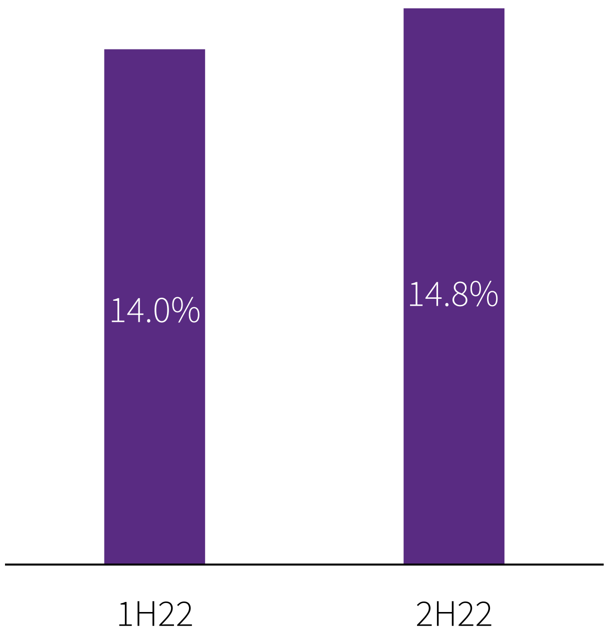
- Strong rate rises to counter inflation, perils allowance, reinsurance costs & underperforming lines
- >1% volume growth across direct short tail personal lines in Australia
- Adjusting for COVID-19, ESL and IAL exit, underlying GWP growth of 7.4%

Stable underlying margin trends pricing for claims inflation

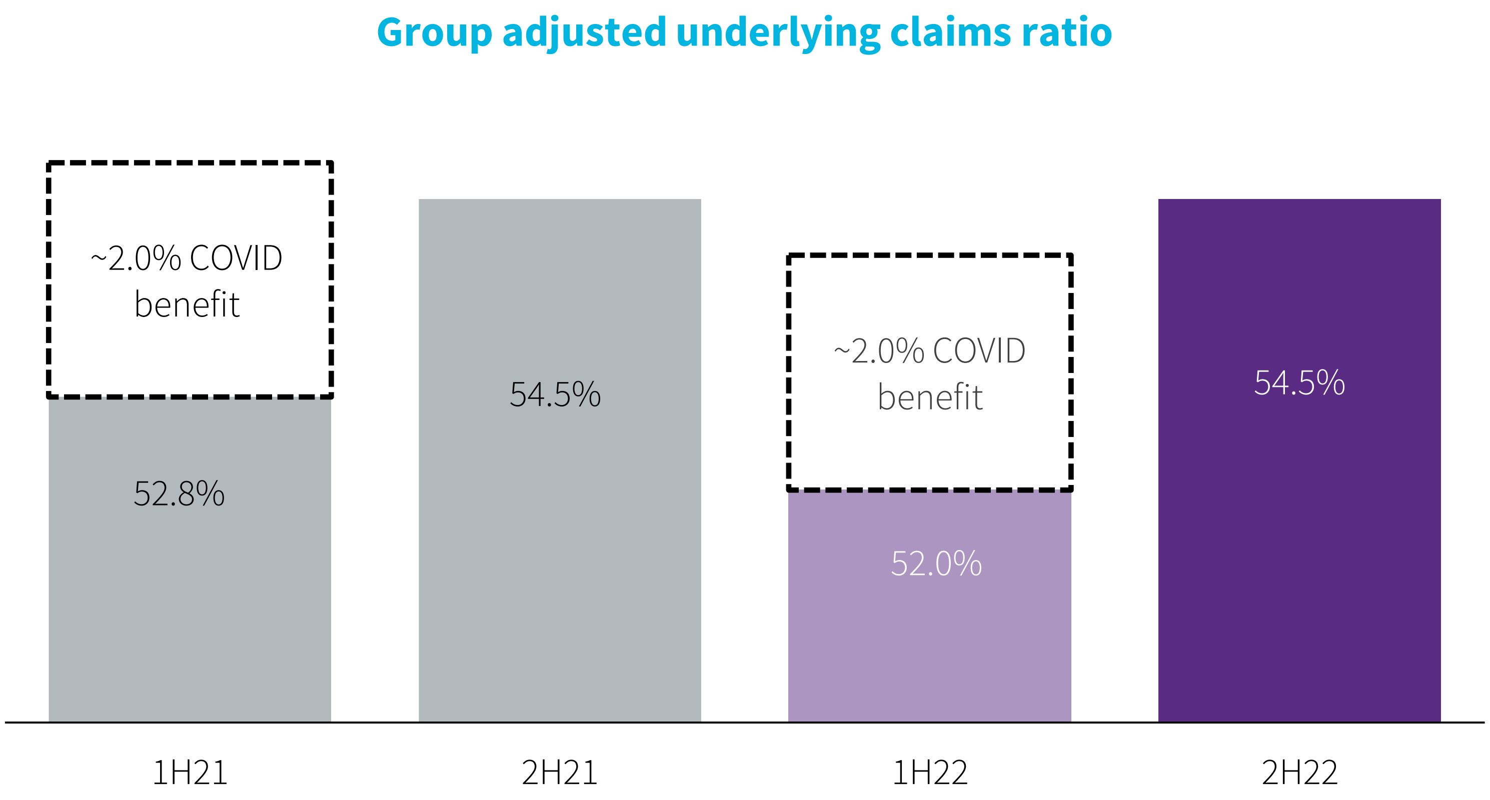
Underlying margin



Underlying margin ex. COVID-19 and discount rate timing impact



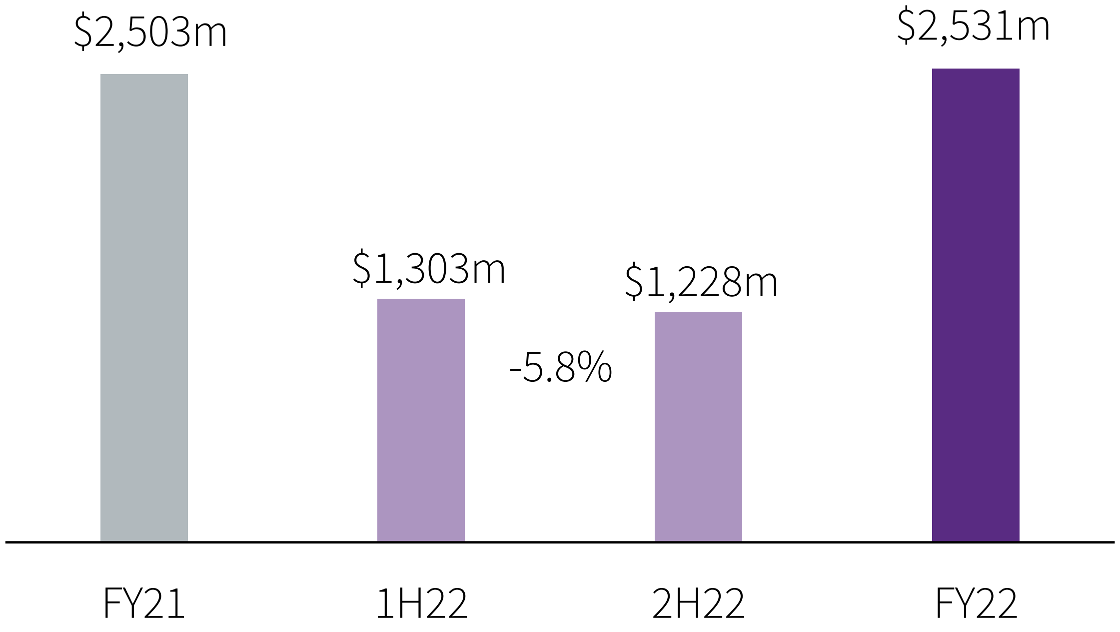
Stable underlying claims trend
managing inflationary pressures



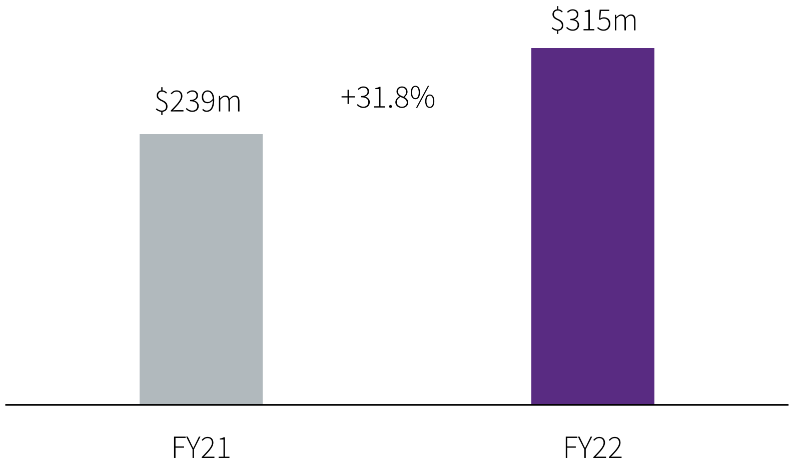
- Premium rate increases earn through
- Reduced motor claims frequency during COVID lockdowns
- Increasing inflationary pressures impacting average claims costs
- Liability deterioration in 2H22
- Lower large loss experience in IIA, higher large commercial claims in NZ

Managing expense trade-offs **to constrain operating cost growth**

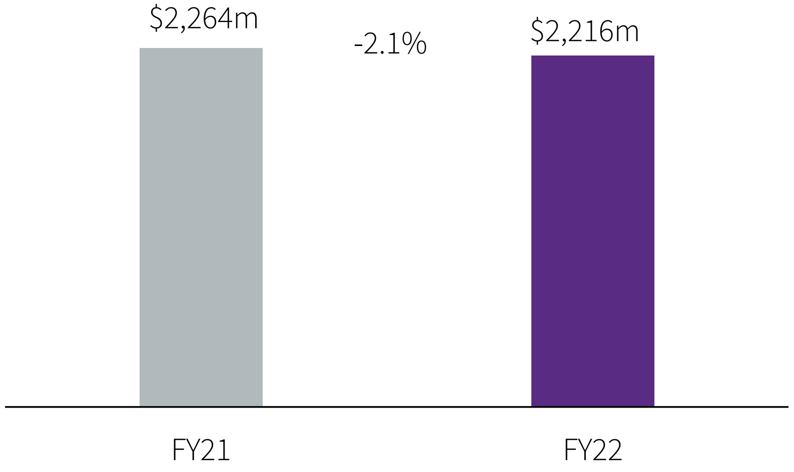
Gross operating costs



Costs to transform



Costs to maintain



Catastrophe reinsurance protection with increased perils allowance to $909m in FY23

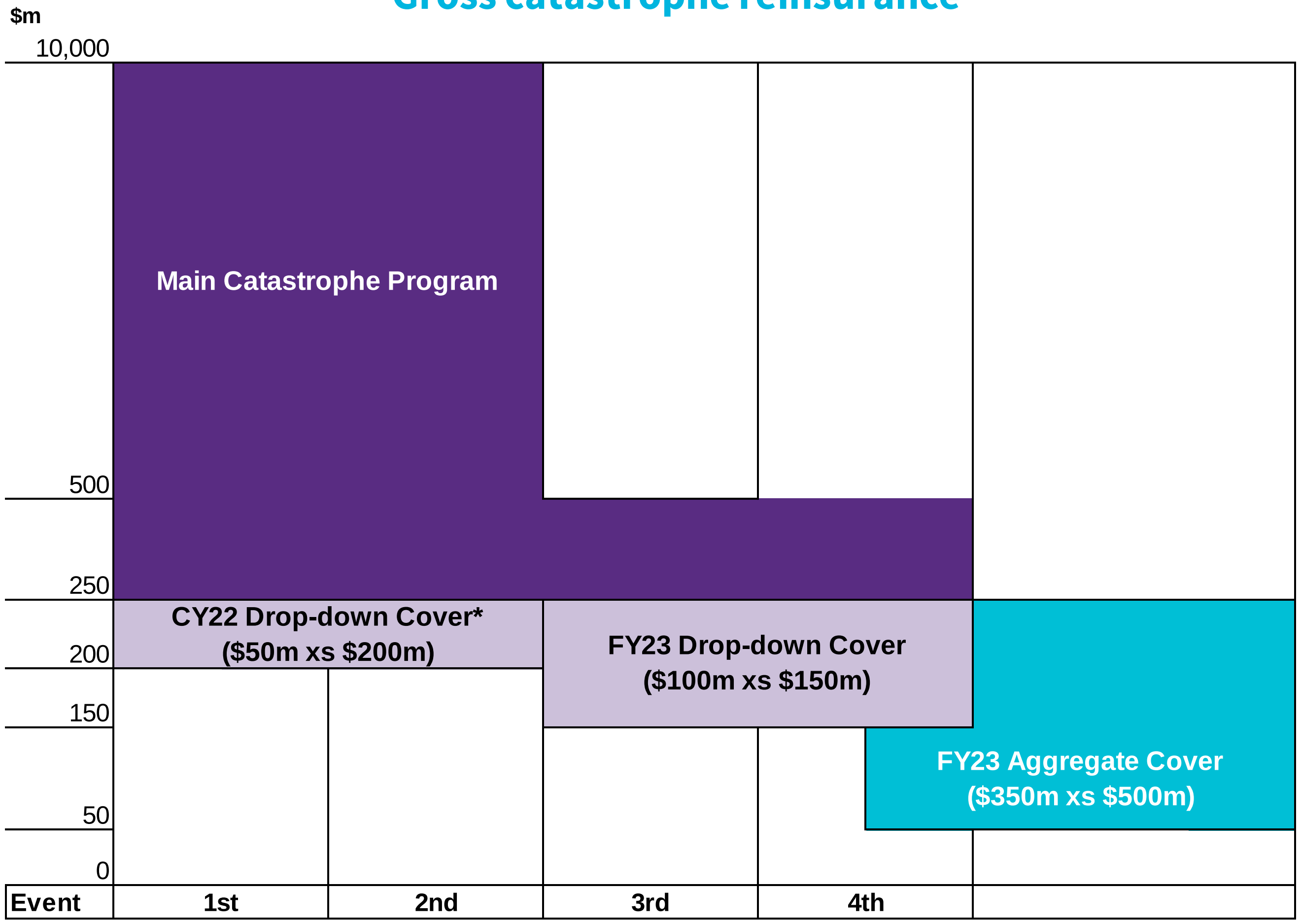
$1,119m
FY22 net perils
$354m above allowance

$350m
FY23 aggregate cover
(gross basis)

$100m
FY23 drop-down cover
(gross basis)

MER of
$135m
at 1 Jul 2022

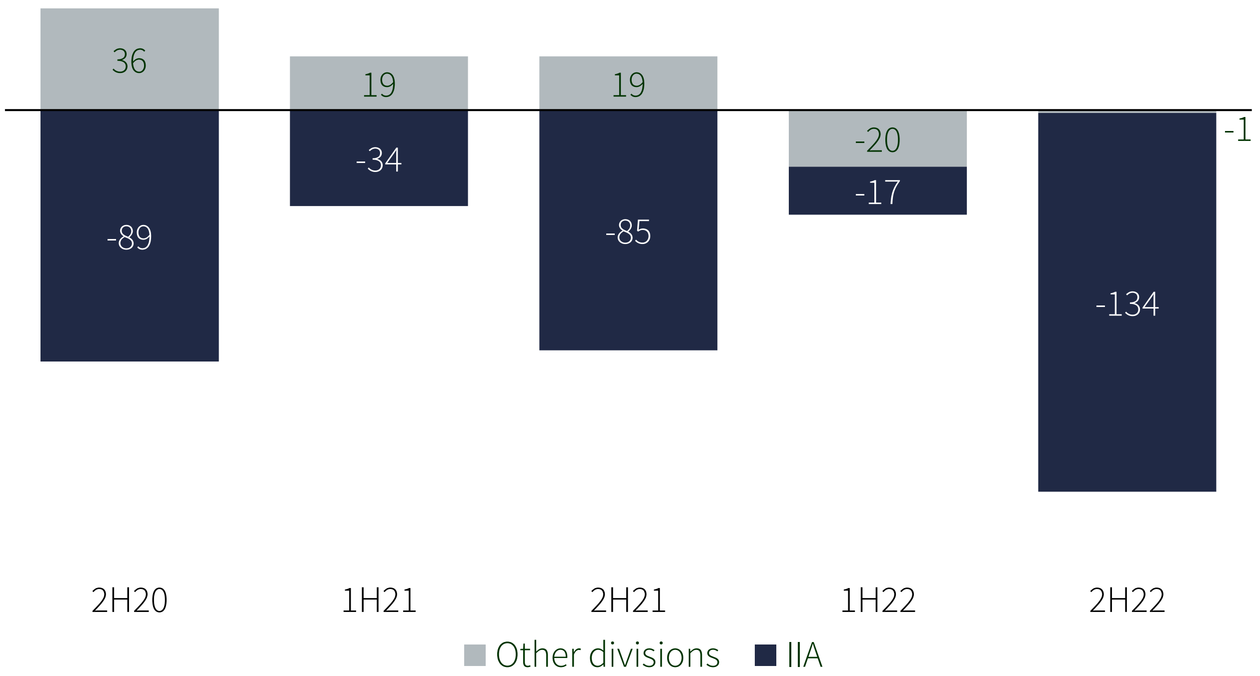
Gross catastrophe reinsurance



*Cover depicted with aggregate erosion as at 30 June 2022

Reserve strengthening, actions to mitigate future impacts

Prior period reserve movements ($m)



IIA prior period strengthening

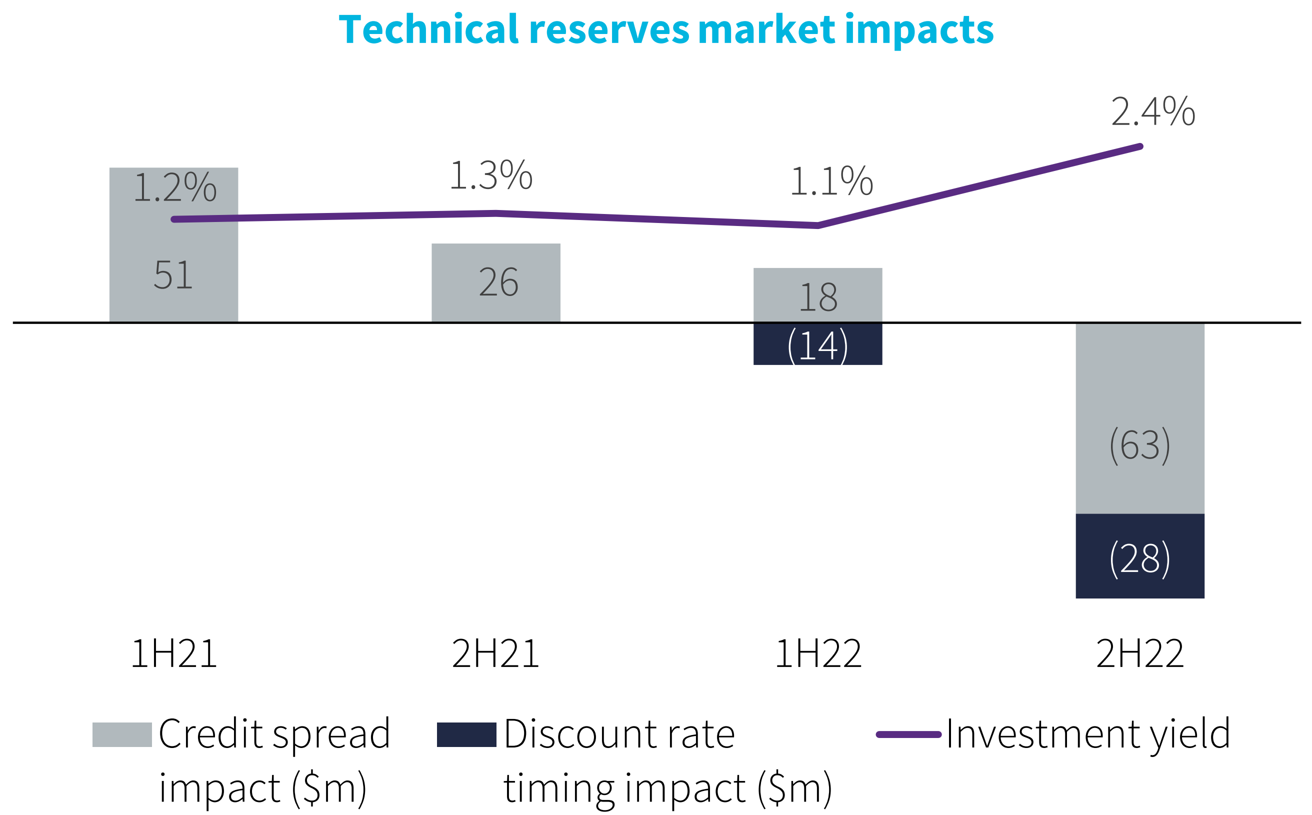
2H22 strengthening driven by commercial liability due to:

- Late reported medium to large claims, notably worker injury claims in 2017 and 2018 accident years
- High levels of claims inflation
- Strengthening of silicosis exposures

Addressing the issue

- Recent observed experience and trends in 2017 and 2018 accident years has been extrapolated into more recent accident years
- Pricing and underwriting adjustments to mitigate future impacts
- Strengthened reserving does not assume any benefit from pricing and underwriting adjustments in recent years

Investments timing impact from transition to higher yields



~$12bn Investment Portfolio

~$7.7bn **technical reserves** invested in fixed interest & cash - Loss of $238m

- Driven by risk-free rate movements and widening credit spreads

~$4.1bn **shareholders funds** - Loss of $105m

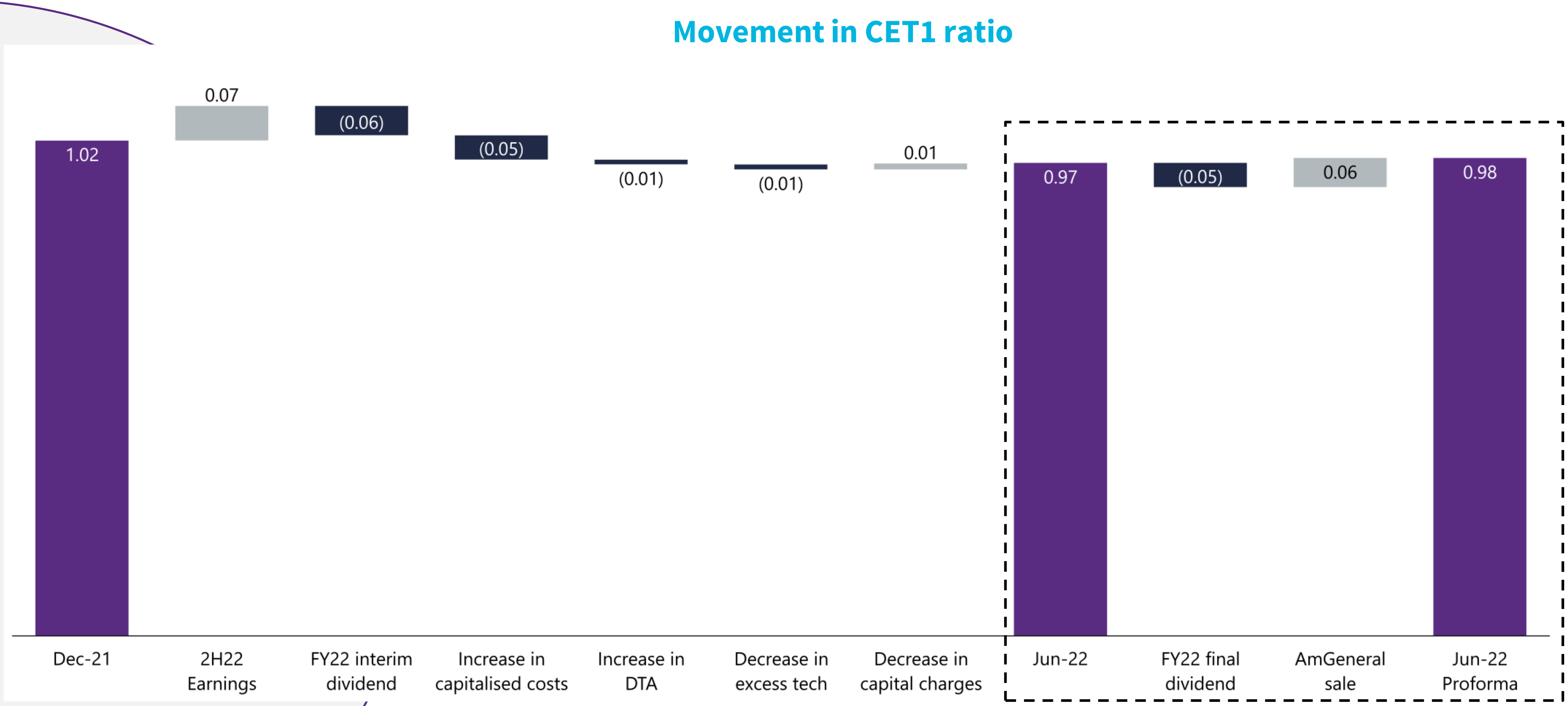
- Impacted by risk-free rate movements and lower equity markets
- Small loss from alternatives portfolio

Solid capital position **near mid-point of targeted range**

Positive impact from partial release of BI provision

Higher insurance concentration risk charge, lower asset risk charge

AmGeneral sale completed July 2022



Guidance & Value Proposition

Nick Hawkins

Managing Director and Chief Executive Officer

GWP growth and reported margin guidance **demonstrate strong business momentum**

Features of FY23 guidance

GWP

'Mid-to-high single digit growth'[1] for the full year

Reported margin

	Margin impact	
FY22 underlying margin		14.6%
Discount rate timing impact (Negative impact in FY22)	~50bps	
COVID-19 impact (~$55-65m benefit in FY22)	(~70bps)	
FY22 adjusted underlying margin		14.4%
Net FY23 improvement o Higher investment yields o Earn through of rate increases, notably in IIA o Higher claims inflation and reinsurance costs	~140bps - 340bps	
Increased natural perils allowance ($144m increase in net allowance to $909m)	(~180bps)	
FY23 reported margin guidance		14.0-16.0%[1]

(1) Refer to Appendix 1: FY23 Guidance and Outlook for more detail

Our **value proposition**

Medium-term margin and ROE targets

Our strengths	Our strategy	Key value drivers	Our aspirations
• Leading brands • Scale and reach • Superior customer experience • Engaged people • Innovative capital platform	• Grow with our customers • Build better businesses • Create value through digital • Manage our risks	• Customer growth • Claims management • Productivity • Reinsurance and capital	• **“Create a stronger, more resilient IAG”** • Sustainable dividends • Top quartile TSR

DIA/NZ 1m customer growth [1]

Grow across Australia	**400K**
Capture the attention of the younger generation	**250K**
Direct SME (Australia)	**100K**
New Zealand (Consumer)	**250K**

\+

Material improvement IIA

At least $250m[1] insurance profit by FY24

\+

Productivity initiatives [1]

$400m of claims value

~$2.5bn gross operating costs

>80% of interactions across digital channels

=

Reported ROE 12-13% [2]
Reported Margin 15-17% [2]

(1) Refer to Appendix 1: FY23 Guidance and Outlook for more detail (2) Excluding business interruption provision releases

Investor Relations

Mark Ley
Mobile. +61 (0)411 139 134
Email. mark.ley@iag.com.au

Nigel Menezes
Mobile. +61 (0)411 012 690
Email. nigel.menezes@iag.com.au

Media

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

Insurance Australia Group Limited

ABN 60 090 739 923
Level 13, Tower Two, 201 Sussex Street
Sydney NSW 2000 Australia
Ph: +61 (0)2 9292 9222

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).

Appendix 2: Reconciliation of reported to underlying to adjusted margins

INSURANCE MARGIN IMPACTS - Continuing Business	1H21 A$m	2H21 A$m	1H22 A$m	2H22 A$m	FY21 A$m	FY22 A$m
Reported insurance margin	**17.9%**	**9.1%**	**7.1%**	**7.7%**	**13.5%**	**7.4%**
Reserve releases/(strengthening)	0.4%	1.8%	0.9%	3.4%	1.1%	2.2%
Natural perils	7.8%	12.1%	17.2%	11.1%	9.9%	14.1%
Natural peril allowance	(8.8%)	(8.8%)	(9.6%)	(9.7%)	(8.8%)	(9.7%)
Credit spreads	(1.4%)	(0.7%)	(0.5%)	1.6%	(1.0%)	0.6%
Underlying insurance margin	**15.9%**	**13.5%**	**15.1%**	**14.1%**	**14.7%**	**14.6%**
COVID-19 impact	(1.7%)	-	(1.5%)	-	(0.9%)	(0.7%)
Discount rate timing impact	-	-	0.4%	0.7%	-	0.5%
Adjusted underlying insurance margin	**14.2%**	**13.5%**	**14.0%**	**14.8%**	**13.8%**	**14.4%**