IAG announces 1H21 results

10 February 2021

Financial indicators

	1H20	1H21	Change
GWP ($m)	5,962	6,188	3.8%
Insurance profit[1] ($m)	501	667	33.1%
Underlying insurance margin[2] (%)	16.9%	15.9%	100bps
Reported insurance margin (%)	13.5%	17.9%	440bps
Net profit/(loss) after tax ($m)	283	(460)	nm
Cash earnings ($m)	380	462	21.6%
Diluted cash EPS (cps)	15.98	17.88	11.9%
Dividend (cps)	10.0	7.0	30.0%
Cash ROE (%)	12.1%	15.5%	340bps
CET1 multiple	1.15	1.19	4bps

"We have seen a strong underlying performance across our businesses over the last six months and we will build on this performance as we sharpen our focus to deliver a stronger, more resilient IAG.

We delivered 3.8% gross written premium (GWP) growth (1H20: 1.4%) over the six months – a strong result in these uncertain conditions.

Growth was predominantly driven by rate increases in our commercial and home insurance businesses in Australia and across all key classes in New Zealand. It was also underpinned by some customer growth in New Zealand's direct brands and high retention rates in our commercial portfolios in Australia.

We have strong margins across the business. Our underlying margin[2] of 15.9% was an improvement on 2H20 (15.1%) and benefitted from lower motor claims as a result of COVID-19.

Our insurance profit[1] of $667 million (1H20: $501 million) equated to a higher reported margin of 17.9% (1H20: 13.5%). In addition to the COVID-19 effect, this result benefitted from a relatively benign natural perils period, which meant we came in $39 million lower than our natural perils allowance, and credit spreads were favourable.

While our business has been relatively stable, our profitability was affected by the pre-tax $1.15 billion expense we announced in November for potential business interruption claims relating to COVID-19.

Our business interruption policies were never intended to cover pandemics. However, following the Supreme Court of NSW Court of Appeal decision on the COVID-19 business interruption test case, we conducted a detailed review to determine our potential exposure, and took action to strengthen our balance sheet.

This has helped ensure we remain well capitalised and we have today announced a dividend of 7 cents per share which represents a payout ratio of 37% of cash earnings.

Over the past few months, we have put in place measures which I believe will further strengthen the business.

We've restructured the business, splitting our Australia Division into Direct Insurance Australia and Intermediated Insurance Australia to better align our brands to our customers and to bring a stronger focus to our commercial and personal intermediated businesses.

We are acting decisively to address the issues facing our business. We are working with the broader insurance industry to get clarity on how our business interruption policies should be interpreted in the context of COVID-19, and we continue to make progress on our customer remediation program.

And today we have outlined our strategy which will allow us to deliver IAG's full potential over the next three to five years.

At IAG we have a great history, strong foundations and a clear purpose. I'm excited about IAG's future and our opportunity to make the world a safer place for more than 30 million Australians and New Zealanders."

Nick Hawkins
IAG Managing Director and Chief Executive Officer

1 The 1H21 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 1H21 Financial Report (Appendix 4D). A reconciliation between the two is provided on page 8 of IAG's 1H21 Investor Report and on page 3 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's 1H21 net loss after tax is the same in this document and in the Financial Report.

2 IAG defines its 1H21 underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; reserve releases or strengthening and credit spread movements. Prior to FY21, the definition adjusted for reserve releases in excess of 1% of net earned premium. Comparative periods have not been restated to incorporate the FY21 definition.

1H21 highlights

Sound performance, challenges being addressed

Stable and resilient underlying business performance

- 3.8% GWP growth, largely rate driven
- Improved underlying margin of 15.9% vs. 2H20
  - Normalised underlying margin in-line with 2H20
- Stable underlying margins in Australia, while New Zealand maintained strong performance

Reported margin recovered to 17.9%

- Modest net reserve strengthening
- Perils below allowance
- Positive credit spread impact

Business interruption adverse ruling

- 1H21 post-tax earnings impact of $805m announced on 20 November 2020
  - $1.15bn pre-tax charge included in net corporate expense
  - No change to provision at 31 December 2020

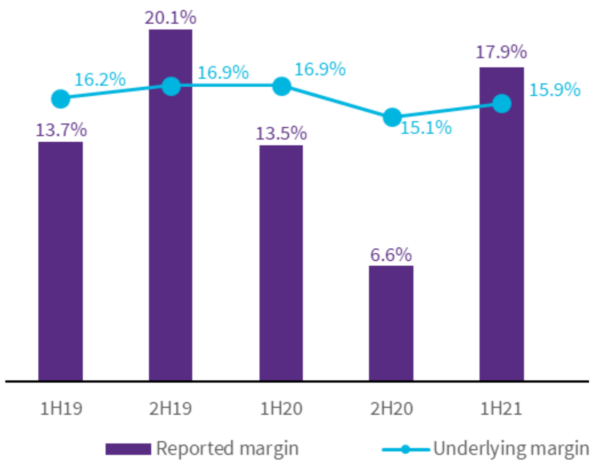
Customer refund provision

- Multi-year pricing issues with discounts
- Additional $75m pre-tax charge

Strong capital position

- CET1 ratio comfortably above top end of targeted benchmark range
- 1H21 dividend of 7 cents per share

Insurance margin



GWP growth

Positive momentum

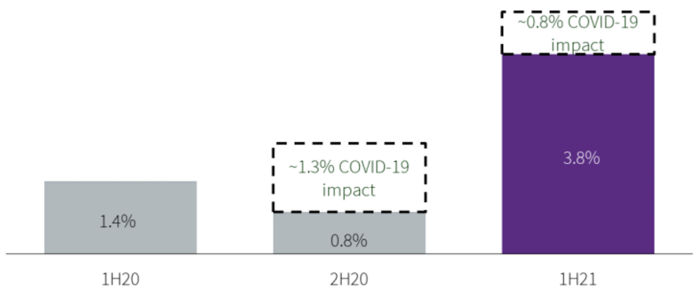
Underlying growth around 5%

- ~$50m adverse COVID-19 impact in 1H21 mainly in Australia in personal lines in contrast to ~$80m in 2H20

Recent trends

- Rate increases matching claims inflation in Australian short tail personal lines
- Australia commercial rate increases ~7% with less pressure on volumes
- Positive impact from premium rates, retention and volumes in New Zealand
- Application of price increases to counter:
  - Lower underlying investment returns
  - Underperforming portfolios
  - Medium-term trend of higher perils allowance

GWP growth



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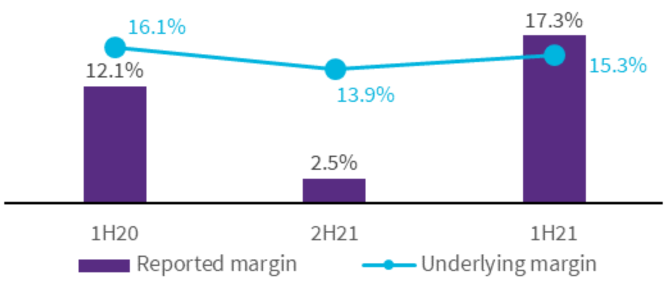
Divisional Highlights

Australia

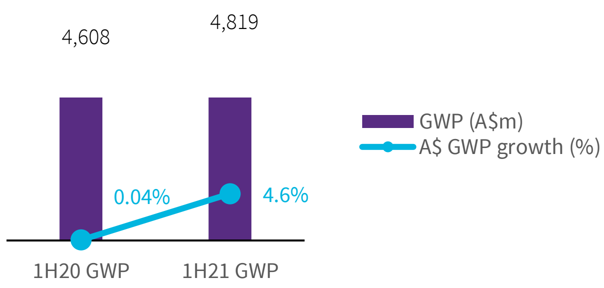
Growth momentum recovers

- GWP growth ~5%
  - Rate-driven growth of 3.1% in short tail personal lines, increases in line with claims inflation
  - Robust commercial growth of 8%. ~7% rate increases, with significant rating actions across liability, property and agri portfolios
- Increase in underlying margin over 2H20 to 15.3%
  - Around \$60-\$70m (~2.2% of NEP) COVID-19 benefit
  - Earn through of higher rates
  - Deterioration in long tail commercial
- Higher reported margin of 17.3%
- Reset of operating model well advanced

Australian insurance margin



Australia GWP

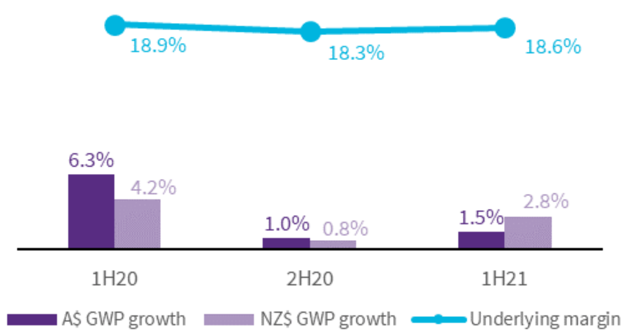


New Zealand

Strong performance maintained

- NZ\$ GWP growth of 2.8%
  - Largely influenced by rate
  - Solid 3.1% Business growth
  - 2.6% growth in Consumer assisted by modest volume growth
- Improved underlying margin compared to 2H20 of 18.6% and strong reported margin of 20.4%
  - Negligible COVID-19 impact
  - Increase in home and motor claim frequency
  - Lower large commercial claims
- Canterbury earthquake settlements
  - Settled claims against the EQC
  - No net P&L impact

New Zealand – GWP growth/underlying margin



Return to shareholders

Dividend - consistent approach applied

Cash earnings of $462m

- Business interruption provision
  - Unusual nature and scale
- Cash ROE of 15.5%

1H21 DPS of 7c, unfranked

- 1H21 dividend represents ~37% of cash earnings
- Committed to 60-80% payout ratio
- No franking anticipated should a final dividend be declared

Capital position remains strong

- At 31 December 2020 IAG's CET1 ratio was 1.19, and 1.12 after allowance for payment of the interim dividend, against a target benchmark of 0.9-1.1

CASH EARNINGS	1H21 A$m
Net profit/(loss) after tax	**(460)**
Acquired intangible amortisation and impairment	4
Unusual items:	
- Business interruption provision	1,150
- Customer refunds provision	75
- Swann class action	68
- Victorian workers' compensation restructure cost	17
- Tax effect on net corporate expense	(394)
- Non-controlling interest in net corporate expense	2
Cash earnings	**462**
Dividend payable	**173**
Cash payout ratio	**37.4%**

Our strategy

Create a stronger, more resilient IAG

"IAG's long-term objective to deliver top quartile Total Shareholder Returns with a sustainable growth profile is unchanged. To realise this, we have refined our strategy to deliver a stronger and more resilient business. We are adapting our business model and playing to our strengths to capitalise on the trends shaping the environment we operate in.

Our strategy balances strengthening the fundamentals of insurance with evolving to be a digital leader. It will ensure IAG is a stronger, more resilient organisation with increased customer reach."

Nick Hawkins
IAG Managing Director and Chief Executive Officer

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IAG financial performance

GROUP RESULTS	1H20 A$m	2H20 A$m	1H21 A$m	1H21 vs 1H20 Mvt
Gross written premium	**5,962**	**6,173**	**6,188**	**+3.8%**
Gross earned premium	6,105	6,059	6,190	
Reinsurance expense	(2,396)	(2,405)	(2,467)	
Net earned premium	**3,709**	**3,654**	**3,723**	
Net claims expense	(2,433)	(2,577)	(2,281)	
Commission expense	(337)	(336)	(337)	
Underwriting expense	(519)	(565)	(539)	
Underwriting profit	**420**	**176**	**566**	
Investment income on technical reserves	81	64	101	
Insurance profit	**501**	**240**	**667**	**+33.1%**
Net corporate expense	(152)	213	(1,310)	
Interest	(54)	(38)	(42)	
Profit/(loss) from fee-based business	(2)	(21)	(13)	
Share of profit/(loss) from associates	29	30	18	
Investment income on shareholders' funds	50	(231)	138	
Profit/(loss) before income tax and amortisation	**372**	**193**	**(542)**	**nm**
Income tax expense	(90)	53	187	
Profit/(loss) after income tax (before amortisation)	**282**	**246**	**(355)**	
Non-controlling interests	20	(79)	(97)	
Profit/(loss) after income tax and non-controlling interests (before amortisation)	**302**	**167**	**(452)**	
Amortisation and impairment	(15)	(15)	(4)	
Profit/(loss) attributable to IAG shareholders from continuing operations	**287**	**152**	**(456)**	**nm**
Net profit/(loss) after tax from discontinued operations	(4)	-	(4)	
Profit/(loss) attributable to IAG shareholders	**283**	**152**	**(460)**	**nm**

INSURANCE MARGIN	1H20 A$m	1H20 %	1H21 A$m	1H21 %
Management reported insurance margin	501	13.5%	667	17.9%
Net natural peril claim costs less allowance	99	2.7%	(39)	(1.0%)
Reserve movement in excess of assumption	32	0.9%	15	0.4%
Credit spread movements	(7)	(0.2%)	(51)	(1.4%)
Underlying insurance margin	625	16.9%	592	15.9%

Contacts

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

Investor Relations
James Coghill
Mobile. +61 (0)412 426 272
Email. james.coghill@iag.com.au