IAG announces 1H22 results

11 February 2022

Financial indicators

	1H21	1H22	Change
GWP ($m)	6,188	6,570	6.2%
NEP ($m)	3,723	3,963	6.4%
Insurance profit[1] ($m)	667	282	57.7%
Underlying insurance margin[2] (%)	15.9	15.1	80bps
Reported insurance margin (%)	17.9	7.1	1080bps
Net profit/(loss) after tax ($m)	(460)	173	nm
Cash earnings ($m)	462	176	61.9%
Diluted cash EPS (cps)	17.88	6.77	62.1%
Dividend (cps)	7.0	6.0	14.3%
Cash ROE (%)	15.5	5.7	980bps
CET1 multiple	1.19	1.02	17 pts

Financial performance

"IAG delivered a solid performance in 1H22, reflecting the foundations we have put in place to create a stronger and more resilient IAG. We've reset the business with a simpler operating model, new leadership, and a clear strategy for growth which we are investing in to create long-term value for our stakeholders.

We have upgraded our FY22 gross written premium (GWP) guidance from low to mid single-digit growth reflecting the confidence we have in the business and future economic outlook. We've reaffirmed reported insurance margin guidance of 10-12% for FY22.

We're encouraged by our strong GWP growth of 6.2% and sound underlying performance, with our underlying insurance margin improving to 15.1% (FY21: 14.7%).

While GWP growth was primarily rate driven, we achieved new customer growth and strong retention across our key motor and home lines in our direct Australia business. GWP in this business grew 3.3%.

We are seeing a notable turnaround in our intermediated Australia business which grew GWP ~9%, reported strong retention and some new business growth, and an improving underlying margin of 5% (1H21: 3.8%).

The New Zealand business performed well across its business and consumer portfolios driving GWP growth of 5.9% in NZ currency while its strong underlying margin of 16.8% was an improvement on FY21 (16.4%).

IAG's insurance profit of $282m (1H21: $667m) was impacted by significant natural perils costs of $681m largely from severe weather events in October along with modest reserve strengthening. This equated to a lower reported insurance margin of 7.1% (1H21: 17.9%). We delivered a net profit of $173m compared to a $460m loss in 1H21. There have been no further material changes to the provisions we've made for business interruption and customer refunds and we reiterate that we have no net insurance exposure to trade credit via BCC Trade Credit.

Supporting our customers

As the pandemic continues to disrupt our lives, our priority is keeping people safe while minimising disruptions to our customers.

Severe and damaging weather events, particularly in October 2021, affected thousands of our customers. Our team successfully navigated COVID-19 protocols to provide customers practical on the ground support and ensure their claims were lodged quickly. The scale of our claims operations and supply chain is delivering faster, more efficient claims experiences. Our motor repair model, which includes Repairhub and Motorserve, is helping keep repair costs down while our simplified claims technology platform is leveraging automation and artificial intelligence to help us make faster claims decisions.

Growing with our customers

Our strategy is delivering encouraging progress against our plan of adding one million new customers over the next five years. We've expanded into new regions while targeting new customer segments in our core insurance markets in Australia and New Zealand, and we're improving customer experiences, especially across our digital channels. Our direct business in Australia aims to deliver $400 million of value through initiatives to increase claims and supply chain effectiveness and we want 80% of customers' activity to be digital in five years.

During the half we took NRMA Insurance – one of Australia's most trusted brands – national. This initiative is already contributing to GWP growth through new customers. We established a new digital business ROLLiN' in late 2021 for the younger generation and while it's early days for this brand, we are seeing a positive response.

In New Zealand, we have a strong presence through relationships with one in two households. We will build on this by enhancing our customer value propositions. For our intermediated business in Australia, we're focused on strengthening our relationships with brokers and partners. During the half we made a number of digital improvements to make it easier to do business with IAG and continue to enhance our pricing and underwriting.

Continued disciplined and focused investment in our enterprise platform is a key enabler of our growth and efficiency across all our businesses.

A stronger, more resilient IAG

IAG today is a much stronger, more resilient company than in recent years and we have the right foundations to position us well for the future. I am confident we will continue to deliver profitable business and customer growth in FY22 and longer-term value for our stakeholders."

Nick Hawkins

IAG Managing Director and Chief Executive Officer

1 The 1H22 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 1H22 Financial Report (Appendix 4D). A reconciliation between the two is provided on page 6 of the IAG 1H22 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 1H22 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 claims costs less the related allowance; reserve releases or strengthening and credit spread movements.

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1H22 highlights

Robust GWP trends and improved underlying margin performance

Strong GWP growth of 6.2%

- GWP growth largely rate driven with positive signs of volume growth across key home and motor portfolios in the Australian direct business
- Growth momentum improved over the half despite COVID-19 lockdown impacts (~0.6% GWP reduction)

Confidence in FY22 outlook with GWP guidance upgraded

- Forecast GWP growth upgraded to mid single-digit
- Forecast reported insurance margin maintained at 10-12%

Momentum behind underlying margin of 15.1%

- Increase on the 14.7% achieved in FY21
- Similar to 1H21 – includes COVID-19 net benefit of around $55-$65m which reflects low motor claims frequency partly offset by higher average claims costs and increased operating expenses

Lower reported margin of 7.1% impacted by natural perils costs

- Natural perils costs above allowance by $299m in line with market update in November 2021
- Modest net reserve strengthening
- Positive credit spread impact

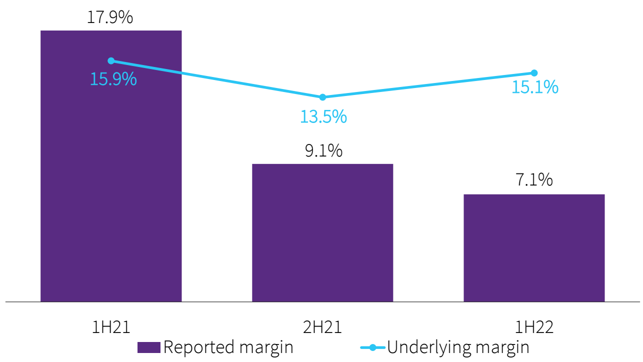
Net profit after tax of $173m

- No material change to business interruption provision
- No net insurance exposure to trade credit via BCC Trade Credit
- Exit from Asia near complete with sale of Vietnam business

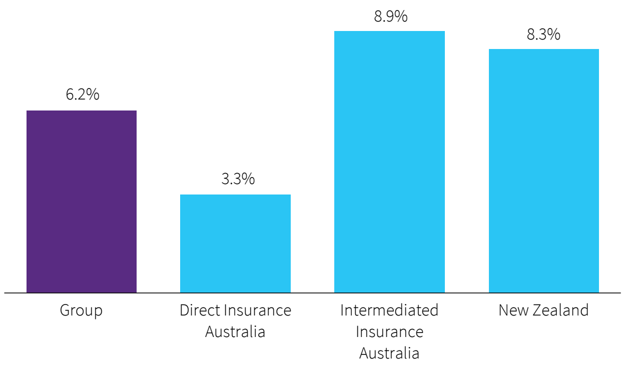
Cash earnings of $176m and cash ROE of 5.7%

- 1H22 dividend of 6cps (1H21: 7cps)

Insurance margin



1H22 GWP growth



GWP growth

Strong GWP performance

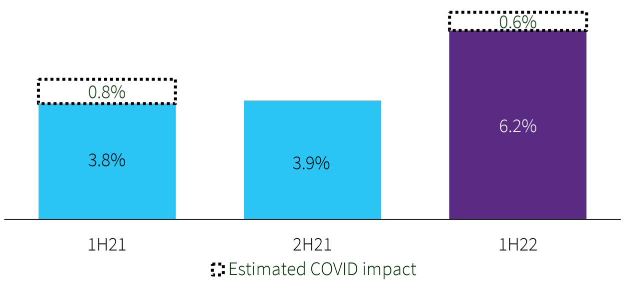
Rate underpins growth with volume growth demonstrating early contributions from strategic initiatives

- Rate increases across key commercial and personal classes to counter claims inflation and higher perils allowance
- Volume growth of >1% in Australian direct personal short-tail classes
- Lower than expected remediation in commercial classes

Key drivers of 1H22 GWP

- Higher rates across short-tail personal lines, >1% volume growth and strong retention in Direct Insurance Australia
- Average rate increases ~9% in Intermediated Insurance Australia
- Ongoing rate increases and strong retention in New Zealand
- Modest negative COVID-19 impact from lower new business opportunities during the NSW and Victoria lockdowns

GWP growth



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Divisional highlights

Direct Insurance Australia (DIA)

GWP growth of 3.3%

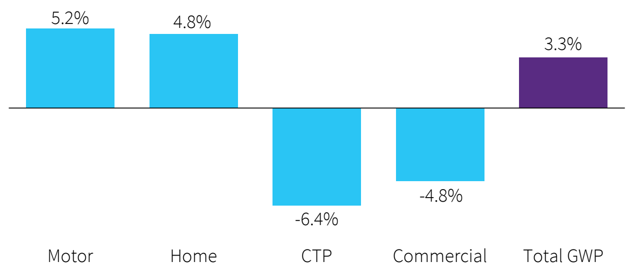
- Growth largely rate-driven and bolstered by volume growth of >1% across personal home and motor lines and early contribution from rollout of NRMA Insurance in Western Australia and South Australia
- Rate increases broadly matched inflation
- Commercial GWP impacted by NSW and VIC lockdowns though growth responded strongly when restrictions were lifted

Strong profitability maintained

- Healthy underlying margin of ~18.5% (ex COVID-19 benefits)

Growth plan to add 750k new customers over five years to FY26 and aiming to deliver $400 million of value

DIA - GWP growth



Intermediated Insurance Australia (IIA)

Strong GWP growth of nearly 9%

- Driven by average rate increases of ~9%

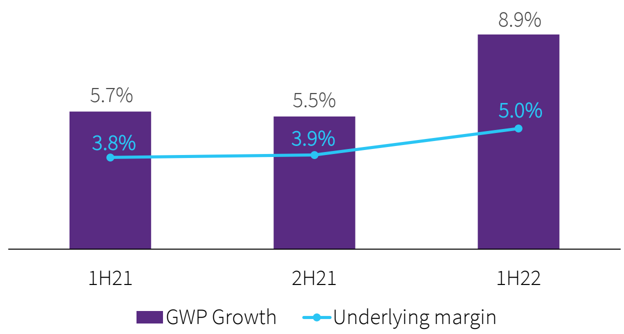
Rate-driven underlying margin improvement to 5%

- Steady progress on $250m insurance profit target by FY24

High natural perils costs primary driver of reported insurance loss of $4m

- Reserve strengthening of $17m mostly related to the liability portfolio

IIA - GWP growth / underlying margin



New Zealand

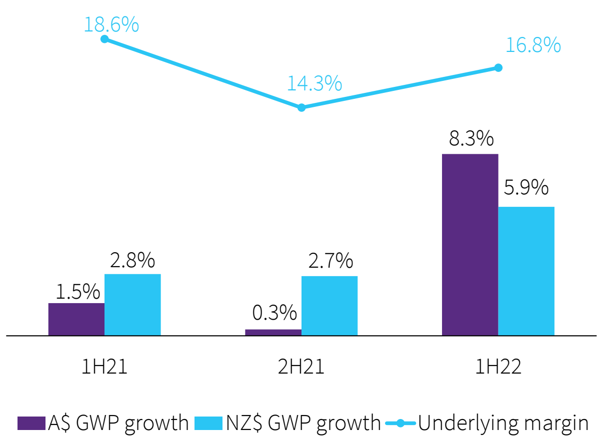
NZ$ rate-driven GWP growth of 5.9%

- Significant shift in growth momentum driven by rate increases across all key portfolios

Underlying margins improved to 16.8%, higher than FY21

Growth plan to add 250k new customers over five years to FY26

New Zealand - GWP growth / underlying margin



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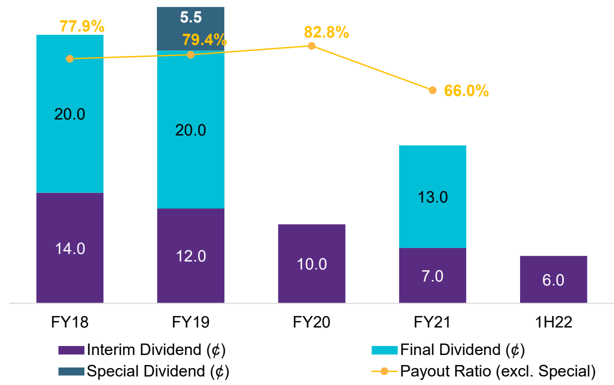
Return to shareholders

Dividend

1H22 dividend of 6cps, unfranked

Based on our cash earnings of $176m, the IAG Board has announced an interim dividend of 6.0 cents per share, with no franking. This equates to a payout ratio of 84% of cash earnings. IAG's stated dividend policy is to distribute 60-80% of cash earnings in any full financial year.

Dividend history – FY18 to 1H22



Capital position

Strong capital position

IAG continues to be well capitalised. IAG's CET1 ratio was 1.02 at 31 December 2021, and 0.96 after allowance for payment of the interim dividend, against a target benchmark of 0.9-1.1. The sale of AmGeneral[3] is expected to result in an increase in IAG's regulatory capital position of approximately $150m on completion, a ~0.06 improvement in the CET1 ratio.

FY22 outlook

Strong performance expected

Following stronger than expected GWP growth in 1H22 and ongoing supportive economic conditions, IAG is upgrading GWP guidance and reaffirming reported insurance margin guidance of 10–12%, as announced on 2 November 2021 (13.5–15.5% prior to this announcement). Assumptions are outlined in Appendix 1 (page seven of this release).

IAG's value proposition over the medium term is to deliver a targeted cash ROE of 12-13%, an insurance margin of 15-17% and a growth profile. Its aspiration is to deliver these financial goals on a sustainable basis.

"We are encouraged by the growth we are seeing across IAG and I'm confident that we will continue to build on our performance. Our strategic initiatives are contributing to customer growth in our direct business, our intermediated business is making steady progress towards its FY24 $250m profit target and in New Zealand we continue to grow and build on the quality of the business," Mr Hawkins said.

3 Subject to regulatory and other processes as announced on 19 July 2021.

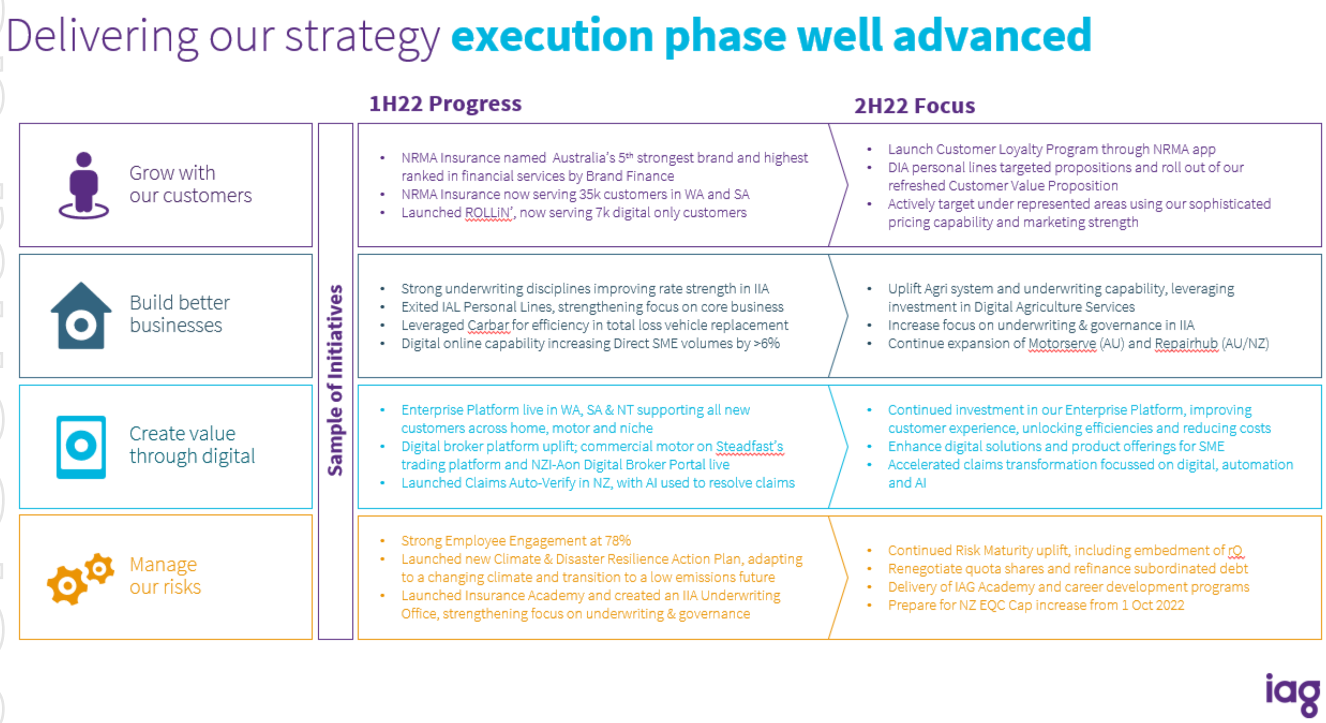
Our strategy

Create a stronger, more resilient IAG

"Customer growth is at the heart of IAG's strategy, and our ambition is to add one million new customers, to the 8.5 million people we already serve across Australia and New Zealand, during the next five years. We are pursuing this growth ambition from a position of strength.

We have a strong balance sheet, well-known and trusted brands, competitive supply chain and claims operations and, importantly highly engaged people who every day bring our purpose to life and deliver on our four strategic pillars.

We're progressing well on the delivery of these strategic pillars, which are now embedded in everyday thinking across IAG providing focus and clarity. I'm proud of what we've delivered during the half and the momentum we've built," Mr Hawkins said.



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IAG financial performance

GROUP RESULTS	1H21 A$m	2H21 A$m	FY21 A$m	1H22 A$m	1H22 vs 1H21 Mvt
Gross written premium	**6,188**	**6,414**	**12,602**	**6,570**	**+6.2%**
Gross earned premium	6,190	6,155	12,345	6,515	
Reinsurance expense	(2,467)	(2,405)	(4,872)	(2,552)	
Net earned premium	**3,723**	**3,750**	**7,473**	**3,963**	
Net claims expense	(2,281)	(2,526)	(4,807)	(2,725)	
Commission expense	(337)	(341)	(678)	(347)	
Underwriting expense	(539)	(581)	(1,120)	(602)	
Underwriting profit	**566**	**302**	**868**	**289**	
Investment income on technical reserves	101	38	139	(7)	
Insurance profit	**667**	**340**	**1,007**	**282**	**-57.7%**
Net corporate expense	(1,310)	(200)	(1,510)	-	
Interest	(42)	(47)	(89)	(47)	
Profit/(loss) from fee-based business	(13)	(16)	(29)	(13)	
Share of profit/(loss) from associates	18	19	37	8	
Investment income on shareholders' funds	138	168	306	53	
Profit/(loss) before income tax and amortisation	**(542)**	**264**	**(278)**	**283**	**nm**
Income tax expense	187	(62)	125	(77)	
Profit/(loss) after income tax (before amortisation)	**(355)**	**202**	**(153)**	**206**	
Non-controlling interests	(97)	(53)	(150)	(30)	
Profit/(loss) after income tax and non-controlling interests (before amortisation)	**(452)**	**149**	**(303)**	**176**	
Amortisation and impairment	(4)	(107)	(111)	(4)	
Profit/(loss) attributable to IAG shareholders from continuing operations	**(456)**	**42**	**(414)**	**172**	**nm**
Net profit/(loss) after tax from discontinued operations	(4)	(9)	(13)	1	
Profit/(loss) attributable to IAG shareholders	**(460)**	**33**	**(427)**	**173**	**nm**

INSURANCE MARGIN	1H21 A$m	1H21 %	1H22 A$m	1H22 %
Management reported insurance margin	667	17.9%	282	7.1%
Net natural peril claim costs less allowance	(39)	(1.0%)	299	7.6%
Prior year reserve movements	15	0.4%	37	0.9%
Credit spread movements	(51)	(1.4%)	(18)	(0.5%)
Underlying insurance margin	592	15.9%	600	15.1%

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Appendix 1: FY22 guidance and outlook

Following stronger than expected GWP growth in 1H22 and ongoing supportive economic conditions, IAG is upgrading GWP guidance and reaffirming reported insurance margin guidance of 10–12%, as announced on 2 November 2021 (13.5–15.5% prior to this announcement).

Guidance for FY22 includes the following:

- GWP guidance for 'mid single-digit' growth (previously 'low single-digit'). This incorporates the combined effect of the following expectations:
  - Rate increases in short tail personal lines and modest growth in customer numbers in DIA;
  - Ongoing rate increases and a supportive market across commercial lines in IIA;
  - Less impact on volume growth from portfolio optimisation in IIA than expected at the start of FY22;
  - A ~$100m GWP reduction in 2H22 from the exit of IAL Personal Lines for new business, effective 1 November 2021; and
  - Largely rate-driven increases in New Zealand.
- Reported insurance margin guidance of 10–12%. A key factor supporting 13.5-15.5% reported margin guidance at the start of FY22 was an improvement in the underlying margin recorded in FY21 on a like-for-like basis of approximately 100-300bps (before the offsetting impact of the higher perils allowance), mainly from the earn through impact of targeted rate increases in DIA and IIA. This remains IAG's expectation.
- The following changes in guidance assumptions have been made since the start of the year:
  - Net natural perils claims costs of $1,045m, in line with the 2 November 2021 increase of approximately $280m (~350 basis points);
  - An estimated net positive impact from COVID-19 of around $55-$65m post-quota share in 1H22, with no net benefit factored in for 2H22;
  - $37m of reserve strengthening as reported for 1H22 and no allowance for prior period reserve releases or strengthening in 2H22; and
  - No material movement in foreign exchange rates and a neutral impact from investment markets on a full year basis.

FY22 guidance aligns to IAG's aspirational goal to achieve a 15-17% insurance margin over the medium term. This goal encompasses organic direct customer growth that at least matches the market in DIA and New Zealand, an insurance profit of at least $250m[4] by FY24 in IIA and delivering further simplification and efficiencies in the cost structure of the company over the next three years.

4 IIA's goal is based on the combination of the flow through of operational efficiencies, lower loss ratios driven by a portfolio led improvement plan and the earn through impact of targeted rate increases. The long tail deterioration experienced in FY21 and 1H22 is expected to improve from 2H22 onwards through rate and other initiatives.