News Release

24 July 2020

IAG outlines FY20 results

IAG today provided an update on its results for the year ended 30 June 2020 (FY20), within which it expects to report:

- Gross written premium (GWP) growth of around 1%, consistent with the 'low single digit' guidance maintained throughout FY20; and
- An insurance margin of approximately 10%, with the shortfall against prior guidance of 12.5-14.5% largely driven by adverse natural perils, prior period reserving and credit spread factors.

FY20 results

IAG will be releasing its detailed FY20 results on 7 August 2020. Ahead of that, IAG advises that, subject to finalisation of audit and Board approval, it expects its FY20 results to contain the following features:

- GWP growth of 1.1%, including adverse effects from business exits completed in FY19 and lower CTP pricing, as well as a modestly negative estimated COVID-19 impact in 2H20;
- An underlying insurance margin[1] of 16.0% (FY19: 16.6%), including a second half outcome of 15.1% impacted by higher reinsurance costs, lower investment returns and deterioration in the performance of some Australian commercial long tail portfolios;
- A reported insurance margin of 10.1%[2] (FY19: 16.9%), after inclusion of:
    - Net natural peril claim costs of $904 million, compared to updated guidance provided in February 2020 of $850 million, following higher than anticipated attritional perils experience in the final quarter of the financial year;
    - Prior period reserve strengthening of $48 million (FY19: net reserve releases of $126 million) driven by adverse development of some Australian long tail reserves;
    - A negative credit spread impact of $46 million (FY19: $6 million negative); and
    - A broadly neutral impact from overall estimated COVID-19 effects;
- A pre-tax loss from fee-based business of $23 million (FY19: loss of $9 million);
- A pre-tax loss on shareholders' funds income of $181 million (FY19: profit of $227 million), compared to a previously indicated year-to-date loss of approximately $280 million at the end of April;

---

[1] IAG defines its 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.

[2] The FY20 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 FY20 Financial Report (Appendix 4E). On a statutory basis the reported insurance margin is expected to be 6.8% (a reduction of 330bps), after inclusion of the $246 million pre-tax provision for customer refunds.

- An increased pre-tax customer refund provision of $246 million for multi-year pricing issues (1H20: $150 million), included in the net corporate expense line;
- A total profit after tax of $326 million on the sale of IAG's 26% interest in SBI General Insurance Company in India, which completed at the end of March 2020. The bulk of this profit is reflected in the net corporate expense line; and
- No final dividend, with the top end of IAG's 60-80% of cash earnings payout policy delivered by the interim dividend of 10 cents per share which was paid in March.

IAG's Managing Director and CEO Peter Harmer said: "We have experienced an immensely challenging second half to the 2020 financial year, characterised by severe natural peril activity, the disruption caused by the COVID-19 pandemic to our people, customers and suppliers, and the marked volatility in investment markets which has adversely impacted our results.

"I am proud of the way our people have risen to the challenges we have seen, maintaining a high level of commitment to our customers through a sequence of major natural peril events in the middle of the financial year. And then, with the emergence of COVID-19, through the swift implementation of customer support measures for those suffering hardship as we rapidly shifted to home working arrangements.

"We have seen some softening in our underlying margin in the second half. This stems from the combination of lower investment returns from diminishing interest rates, an increased reinsurance expense as we bolstered our protection following heavy perils incidence early in the calendar year, and some deterioration in Australian commercial long tail loss ratios.

"We enter FY21 with a strong balance sheet and enhanced reinsurance protection, and are well-equipped to negotiate the challenges and opportunities that a post-COVID environment will present," Mr Harmer said.

COVID-19 impacts on FY20 financial performance

The COVID-19 pandemic is estimated to have had a modestly negative effect on IAG's GWP in FY20, and a broadly neutral impact on its reported insurance margin.

Lower new business volumes are estimated to have reduced GWP by approximately $80 million across the months of March to May 2020, and lowered GWP growth in 2H20 by over 1%. Since the end of May, IAG has seen new business volumes return to more normal levels in most of its core portfolios, while retention levels have remained high over the course of FY20.

An estimated broadly neutral COVID-19 effect on IAG's FY20 reported insurance margin contains two elements:

- A net benefit of around $100 million from a mixture of claim cost and expense effects. Predominantly reflecting lower motor claims frequency, especially in the months of April and May, this was partially offset by claim costs in other classes, notably travel and landlords' insurance, and additional operating costs, including those from moving employees to a 'working from home' basis; and
- A provision of approximately $100 million for potential COVID-19 claim cost impacts that are highly uncertain, sit within a wide range and are estimated on a probability-weighted basis. This accords with accounting requirements and spans potential business interruption, landlords' and other insurance class impacts, including the estimated impact an economic downturn will have on the settlement of long tail claims.

Prior period reserve strengthening

IAG has strengthened its prior period reserves by over $50 million in 2H20, compared to previous guidance of reserve releases equivalent to 1% of net earned premium (NEP) in that period. Contributing to a full year net strengthening of $48 million, this action reflects stronger claim development across Australian long tail classes than observed in recent years and further emergence of large claims in excess of expectations. It also recognises the uncertain macroeconomic environment and its potential impact on reserves.

The 2H20 net strengthening includes the following movements from Australian long tail classes:

- Over $40 million related to liability classes, predominantly in the areas of silicosis and molestation;
- Nearly $20 million in respect of professional risk-related reserves;
- Over $15 million of workers' compensation reserve strengthening; and
- Offsetting releases from compulsory third party (CTP) motor liability of around $25 million, which were in line with expectations.

IAG anticipates negligible impact from net prior period reserve movements in FY21, given the heightened uncertainty attached to long tail reserve development in the current economic and operating conditions.

Customer refund provision

In 1H20 IAG included a pre-tax provision of $150 million for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This related to a specific multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible.

This provision has been increased by $96 million in 2H20, to $246 million pre-tax, to cover two further refund programs in respect of similar pricing issues.

On a post-tax basis, the customer refunds provision amounts to $141 million for the full year, compared to an initial amount of $82 million recognised in 1H20.

All the issues concerned relate to Australia and were identified as part of a proactive review of pricing systems and processes which is ongoing.

Capital and dividend

IAG remains in a strong capital position, with an anticipated Common Equity Tier 1 (CET1) ratio of 1.23 at 30 June 2020. While comfortably above its targeted CET1 range of 0.9-1.1, IAG regards the current economic circumstances and uncertainty as justifying a more conservative approach to capital than would otherwise be required.

IAG's FY20 cash earnings are expected to amount to $279 million. Applying the top end of IAG's 60-80% targeted payout ratio, this would equate to a full year dividend payment similar to the 10 cents per share interim dividend paid in March 2020. Consequently, and while subject to finalisation of audit and Board approval, it is anticipated that no final dividend will be paid in respect of FY20.

While IAG recognises many shareholders will be disappointed with no final dividend, it believes it is important to adhere to its long-established dividend payout policy and to maintain a strong capital position in the current uncertain environment.

Reinsurance

IAG enters FY21 with strong reinsurance cover in place, including access to significant protection under its calendar 2020 aggregate cover. The combination of covers in place at 1 July 2020 results in an estimated maximum event retention of $41 million (post-quota share) at that date, based on current estimates of losses incurred in 2H20 and a gross next event in excess of $250 million.

In addition, IAG has continued to pursue initiatives that strengthen its overall reinsurance position, including:

- The purchase of an aggregate catastrophe reinsurance cover for the 12 months to 30 June 2021, providing $350 million of gross protection in excess of $400 million ($236 million in excess of $270 million, post-quota share). This facilitates the transition of IAG's aggregate protection to a financial year format, avoiding the intersection with peak period catastrophe activity that can disrupt the renewal process at calendar year-end. This new protection will overlay the existing aggregate protection for the balance of calendar 2020, with the calendar year aggregate cover not being renewed from 1 January 2021; and
- The purchase of a stop-loss protection for retained natural perils which runs in line with FY21. This provides protection of $100 million in excess of $1.1 billion ($67 million in excess of $742 million, post-quota share) for the 12 months to 30 June 2021. On a post-quota share basis, this cover will attach approximately $84 million above IAG's FY21 perils allowance of $658 million.

FY20 results announcement

IAG will announce its detailed FY20 results on 7 August 2020.

This release has been authorised by IAG's Disclosure Committee.

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.

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

Insurance Australia Group Limited

ABN 60 090 739 923
Level 13, Tower Two, 201 Sussex Street Sydney
NSW 2000 Australia
Telephone. +61 (0)2 9292 9222
www.iag.com.au

IAG PRELIMINARY RESULTS - SUBJECT TO AUDIT AND BOARD APPROVAL	1H19 A$m	2H19 A$m	1H20 A$m	2H20 A$m	FY19 A$m	FY20 A$m
Gross written premium	**5,881**	**6,124**	**5,962**	**6,173**	**12,005**	**12,135**
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**
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**
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**
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**

Insurance Ratios - Continuing Business	1H19	2H19	1H20	2H20	FY19	FY20
Reported insurance margin	**13.7%**	**20.1%**	**13.5%**	**6.6%**	**16.9%**	**10.1%**
Underlying insurance margin	**16.2%**	**16.9%**	**16.9%**	**15.1%**	**16.6%**	**16.0%**

INSURANCE MARGIN IMPACTS	1H19 A$m	2H19 A$m	1H20 A$m	2H20 A$m	FY19 A$m	FY20 A$m
Reserve releases	83	43	5	(53)	126	(48)
Natural perils	(414)	(213)	(419)	(485)	(627)	(904)
Natural peril allowance	304	304	320	321	608	641
Credit spreads	(24)	18	7	(53)	(6)	(46)
Reserve releases	2.3%	1.2%	0.1%	(1.5%)	1.7%	(0.7%)
Natural perils	(11.5%)	(5.9%)	(11.3%)	(13.3%)	(8.7%)	(12.3%)
Natural peril allowance	8.4%	8.4%	8.6%	8.8%	8.4%	8.7%
Credit spreads	(0.7%)	0.5%	0.2%	(1.5%)	(0.1%)	(0.6%)

This presentation is based on a preliminary view of IAG's FY20 results which remain subject to finalisation of audit and Board approval.

IAG outlines FY20 results

Peter Harmer
Managing Director and Chief Executive Officer

Nick Hawkins
Deputy Chief Executive Officer

24 July 2020

This release has been authorised by IAG's Disclosure Committee

Financial summary

Resilient underlying business performance and strong financial position

	FY19	FY20	Change
GWP ($m)	12,005	12,135	1.1% ▲
Underlying insurance margin (%)	16.6	16.0	60bps ▼
Reported insurance margin (%)*	16.9	10.1	680bps ▼
Fee-based business ($m)	(9)	(23)	nm
Shareholders' funds income ($m)	227	(181)	nm
Net corporate (expense)/profit ($m)	(4)	61	nm
Cash earnings ($m)	931	279	70.0% ▼
Dividend (cps)	32.0	10.0	68.8% ▼
CET1 multiple	1.31	1.23	8bps ▼

nm – not meaningful

**The FY20 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 FY20 Financial Report (Appendix 4E). On a statutory basis the reported insurance margin is expected to be 6.8% (a reduction of 330bps), after inclusion of the $246m pre-tax provision for customer refunds.*

COVID-19 impacts

Modestly adverse GWP effect, neutral insurance margin impact

Operational impacts and initiatives	• Rapid deployment of working from home arrangements >98% of staff • Up to 400 additional people employed locally in customer-facing roles • Range of support packages introduced for customers, suppliers and intermediaries facing hardship • Lower new business volumes March to May – recovered to more normal levels by June • Reduced motor claims frequency, particularly in April/May – rebound as lockdown conditions eased • Increased claim costs in COVID-19 influenced classes – e.g. landlords' insurance, travel insurance • Maintained strong retention levels in all core portfolios • Acceleration of customer trends away from traditional channels

FY20 financial impact	• Modestly adverse GWP effect from lower new business volumes – estimated at ~$80m, or over 1% of GWP in 2H20
	• Net benefit in claims expense
	  o Lower motor frequency partially offset by claims in other classes (e.g. landlords', travel)
	  o Prudent provision of >$100m for potential COVID-19-related claims, including business interruption
	• Increased operating costs, including those from working from home rollout
	• Broadly neutral insurance profit impact
	• Adverse investment income impact from COVID-19-inspired market volatility

Reported insurance margin

Reconciles to low end of guidance via peril, reserving and credit spread effects

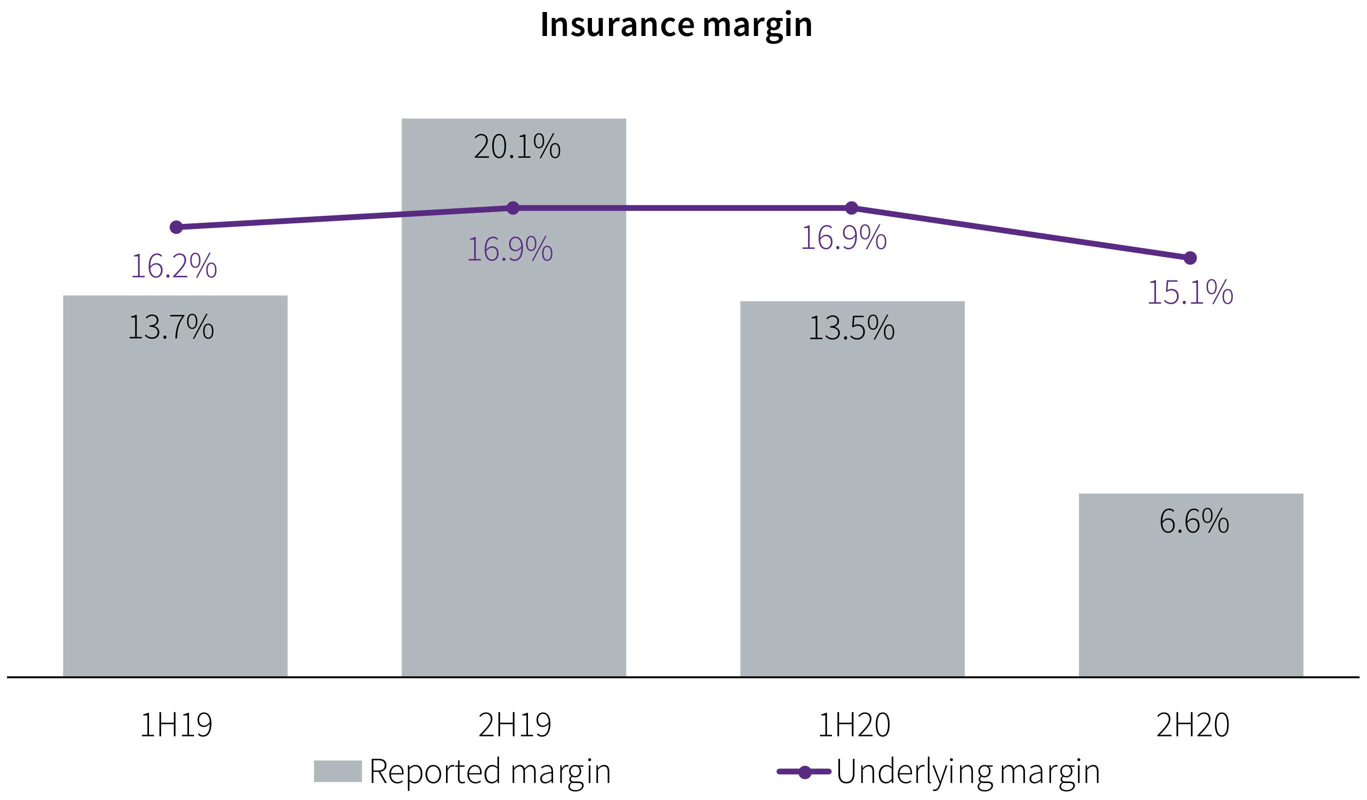
	Margin impact	
FY20 revised reported margin guidance		**12.5-14.5%**
2H20 prior period reserve strengthening (-0.7% of NEP compared with +0.5% of NEP guidance)	(~120bps)	
Natural perils above guidance (Net cost of $904m vs. updated guidance of $850m)	(~70bps)	
2H20 credit spread widening ($53m, not factored into revised guidance)	(~70bps)	
Total negative impact	(~260bps)	
FY20 reported margin		**10.1%**

Underlying insurance margin

Broadly neutral COVID-19 impact

Softer 2H20 underlying margin of 15.1%

- Neutral COVID-19 impact
- Deterioration in Australian long tail commercial profitability
- Lower investment yields from lower interest rates (~70bps margin headwind vs. 1H20)
- Higher non-quota share reinsurance expense
  - Replacement of covers after early calendar 2020 peril activity



Prior period reserving

Reserve strengthening across Australian long tail classes (ex-CTP)

Second half net reserve strengthening of $53m

- Driven by strengthening of Australian commercial long tail classes
  - Liability (over $40m), predominantly in silicosis and molestation
  - Deterioration in professional risks (nearly $20m)
  - Increased workers' compensation reserves (over $15m)
- Stronger claim development and increased number of large claims
- ~$25m releases from CTP in line with expectations

Negligible prior period reserve movement expected in FY21

- Uncertainty attached to long tail reserve development in current economic and operating environment

Customer refund provision

Increased to cover two further refund programs

Provision for customer refunds of $246m pre-tax ($141m post-tax)

- 1H20 pre-tax provision of $150m ($82m post-tax) for customer refunds
  - Related to a specific multi-year pricing issue
- Pre-tax provision increased by $96m ($59m post-tax) in 2H20
  - Covers two further pricing issues of similar nature, and related refund programs
- All issues in Australia and self-notified to ASIC
- Review of pricing systems and processes is ongoing

CUSTOMER REFUND PROVISION	1H20 A$m	2H20 A$m	FY20 A$m
Gross provision	180	110	290
Quota share recovery	(30)	(14)	(44)
Corporate expense	**150**	**96**	**246**
Income tax	(45)	(29)	(74)
Non-controlling interest	(23)	(8)	(31)
Net provision	**82**	**59**	**141**

Capital, reinsurance and dividend

Strong financial position

Strong capital position maintained

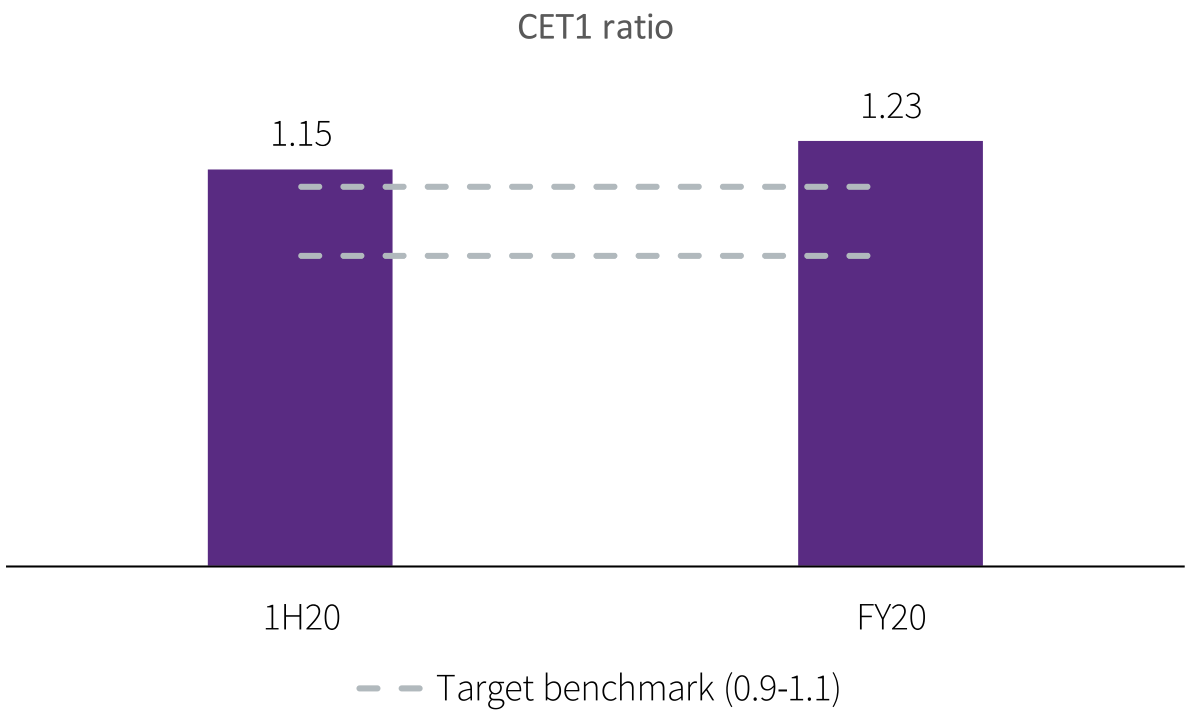
- Stronger CET1 ratio of 1.23 at 30 June 2020
- Includes benefit of SBI General sale
- Comfortably above targeted range of 0.9-1.1
- Maintain conservative approach to capital in uncertain economic circumstances

Strong reinsurance position entering FY21

- MER of $41m at 1 July 2020
- Transitioning aggregate cover to financial year basis

Anticipate no final FY20 dividend

- Expected FY20 cash earnings of $279m
- Application of top end of 60-80% payout ratio gives full year dividend similar to 10cps interim payment



Australia

New Zealand

Important information

This presentation contains general information current as at 24 July 2020 and is not a recommendation or advice in relation to Insurance Australia Group Limited (IAG) or any product or service offered by IAG's 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 presentation is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction.

The presentation 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 presentation contains information in summary form and 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 presentation 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. 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 presentation will actually occur and IAG assumes no obligation to update such information. In addition, past performance is no guarantee or indication of future performance.

To the maximum extent permitted by law, IAG, its subsidiaries 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 presentation.

Local currencies have been used where possible. Prevailing exchange rates have been used to convert local currency amounts into Australian dollars, where appropriate.