



IAG announces FY21 results

11 August 2021

Financial indicators

	FY20	FY21	Change	
GWP (\$m)	12,135	12,602	3.8%	▲
Insurance profit ¹ (\$m)	741	1,007	35.9%	▲
Underlying insurance margin ² (%)	16.0%	14.7%	130bps	▼
Reported insurance margin (%)	10.1%	13.5%	340bps	▲
Net profit/(loss) after tax (\$m)	435	(427)	nm	▼
Cash earnings (\$m)	279	747	nm	▲
Diluted cash EPS (cps)	12.12	28.51	nm	▲
Dividend (cps)	10.0	20.0	nm	▲
Cash ROE (%)	4.5%	12.0%	nm	▲
CET1 multiple	1.23	1.06	17pts	▼

Financial performance

We are pleased with the underlying financial results we are delivering today. Our FY21 business performance is sound and reflects the strength of our core insurance business and its market-leading brands.

The underlying margin of 14.7% (FY20: 16.0%) is within expectations and we've reinstated guidance for FY22, reflecting the confidence we have in our business and economic outlook.

Our Australian and New Zealand direct businesses have generated solid growth, and we've enhanced our focus on our intermediated business in Australia to resolve the challenges we've seen with some of its portfolios, and to drive greater profitability.

Our gross written premium (GWP) growth of 3.8%, was mainly rate driven, but we also saw promising new business growth and stronger customer retention. Our reported insurance profit of \$1,007 million increased significantly over the year (FY20: \$741 million) due mainly to lower natural perils costs, positive credit spreads and a first half COVID-19 benefit mainly from lower motor claims in Australia. This translated to an improved reported insurance margin of 13.5% (FY20: 10.1%).

Significant one-off corporate expenses mainly relating to business interruption, customer refunds and payroll remediation impacted our overall result, which was a net loss of \$427 million (FY20: \$435 million profit). These are historical issues we've identified, provisioned for and are fixing – and we are making investments to

continue to lift our risk management and operational capabilities.

Our cash earnings, which exclude one-off items, increased to \$747 million for the year (FY20: \$279 million) – and we're pleased to announce a final dividend of 13 cents per share which takes our payout ratio to 66% based on full year cash earnings.

Strategy momentum

Since becoming CEO in November, I have put in place a new, more customer aligned operating model, reset our strategy for growth, and appointed a leadership team with deep insurance and customer expertise, and clear accountability for success. We are already seeing results from these changes and have momentum behind our strategy.

This includes growing with our customers and during the year we increased customer numbers in our Australia and New Zealand direct insurance businesses, and we are expanding our premium NRMA Insurance brand across Australia.

Our strategic focus to build better businesses is underpinned by the work we are doing to set up our intermediated business to achieve double-digit insurance margins over the next three to five years, to deliver an insurance profit of at least \$250 million per year³. We're focused on upgrading the risk management and underwriting disciplines in that business and strengthening our relationships with broker partners to improve its profitability.

We're creating value through digital by scaling up artificial intelligence and automation in motor claims to deliver better outcomes for customers.

And we've developed a predictive loss technology for cars written off in an accident that is reducing the claims time for customers from weeks to days.

Actively managing risk is an ongoing priority, and our \$100 million, multi-year risk management improvement program is significantly progressed and has strengthened risk controls across IAG.

Natural perils and COVID-19

A high number of extreme weather events has once again impacted our customers and their communities this year, and we were proud to be there for them in the moments that matter.

COVID-19 continues to affect us all, and we were pleased to continue customer support measures we introduced in 2020. More than 68,000 policyholders have taken up these measures which include premium reductions and deferrals.

Stronger, more resilient IAG

I'm confident that the strong leadership team I've established, the new organisational structure we have in place and the strategy we're executing will deliver business and customer growth.

IAG is a company guided by a clear purpose 'to make your world a safer place' that makes a real difference to our customers and communities.

I'm focused on IAG's long-term future, and together with my leadership team and our people, we will build a stronger, more resilient company.

Nick Hawkins

IAG Managing Director and Chief Executive Officer

1 The FY21 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 the IAG FY21 Financial Report (Appendix 4E). A reconciliation between the two is provided on page 6 of the IAG FY21 Investor Report and on page 8 of the Financial Report to comply with the Australian Securities and Investments Commission Regulatory Guide 230. IAG's FY21 net loss after tax is the same in this document and in the Financial Report.
 2 IAG defines its underlying insurance margin as the reported 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 definition from FY21.
 3 Refer to page four of this release.



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FY21 highlights

Sound performance, guidance reintroduced

Improving GWP growth, resilient underlying business performance

- 3.8% GWP growth, largely rate driven
- Lower underlying margin of 14.7% vs 16.0% in FY20
- Steady 2H21 underlying margin trends against 1H21 across each division, excluding COVID-19 impacts, one-off costs and different large loss experience in New Zealand

Reported margin recovered to 13.5%

- Further net reserve strengthening
- Perils above allowance but down on FY20
- Positive credit spread impact

Net loss after tax of (\$427m) reflects impact of unusual items

- Business interruption pre-tax charge of \$1.15bn unchanged from 1H21
- Additional \$238m pre-tax charge for customer refunds, increasing the component for uncertainty in the provision to \$100m
- \$51m pre-tax charge for prior year payroll compliance matters
- Proposed sale of AmGeneral triggered impairment of ~\$90m, with expected ~\$150m improvement in regulatory capital position expected on completion

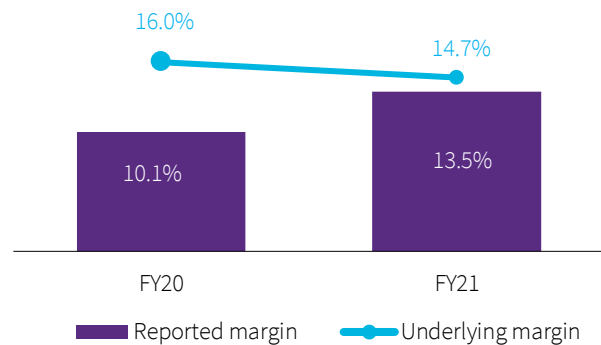
Cash earnings of \$747m and cash ROE of 12.0%

- Excludes unusual items
- FY21 dividend of 20cps (2H21: 13cps)

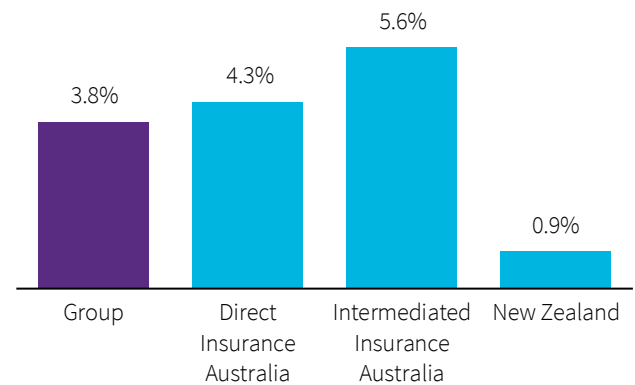
Reintroduction of guidance for FY22

- Forecast 'low single-digit' GWP growth
- Forecast reported insurance margin 13.5-15.5%

Insurance margin



FY21 GWP growth



GWP growth

Solid momentum continued

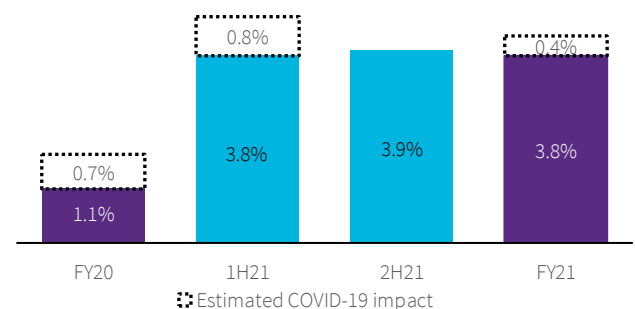
Growth of around 4% across FY21

- Achieving strong rate increases where required

Recent trends

- ~\$50m adverse COVID-19 impact in 1H21 with no material COVID-19 impact experienced in 2H21
- Direct Insurance Australia growth driven by volume and higher rates across short-tail personal lines
- Average rate increases ~8% with stable retention in Intermediated Insurance Australia
- Ongoing rate increases, strong retention and sound new business in New Zealand
- Application of price increases to counter claims inflation, underperforming portfolios and medium-term trend of higher perils allowance

GWP growth





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Divisional highlights

Direct Insurance Australia (DIA)

GWP growth of 4.3%

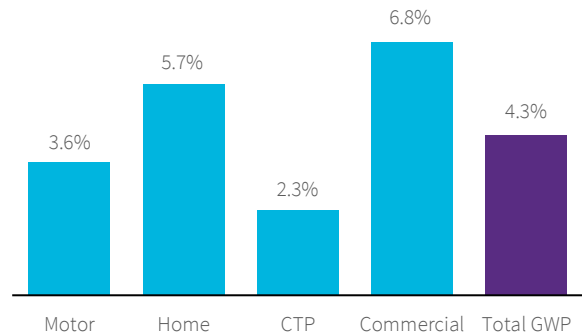
- Included volume growth of over 1%
- Rate increases in line with claims inflation and underlying perils allowance increase

Strong underlying margin of 21.4%

- ~2% lower than FY20 on normalised basis following increase in costs and lower investment yield



DIA - GWP growth



Intermediated Insurance Australia (IIA)

Strong GWP growth of 5.6%

- Driven by average rate increases of ~8%

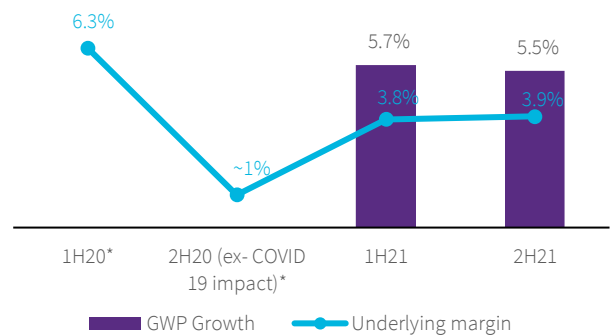
Underlying margin improvement to 3.9% in FY21

- Steady across both halves

Reported margin affected by perils experience and reserve strengthening



IIA - GWP growth / underlying margin



*2H20 adjusted for approximate one-off COVID-19 impact; no GWP comparisons available for FY20 growth

New Zealand

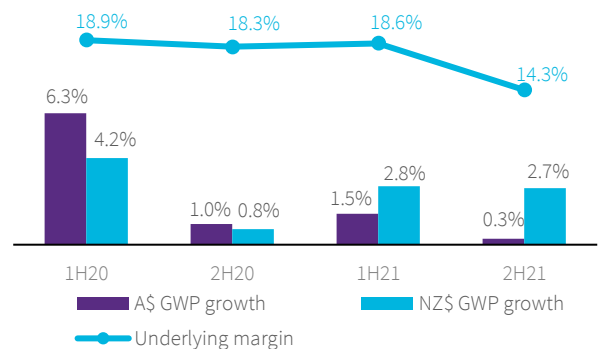
Solid NZ\$ rate-driven GWP growth of 2.8%

Normalised margins remain healthy

- Lower underlying margin in 2H21 of 14.3% reflects property consolidation costs and normalised large loss experience compared to benign 1H21



New Zealand - GWP growth / underlying margin





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Return to shareholders

Dividend

Cash earnings of \$747m

- Excludes net corporate expense and amortisation & impairment
- Cash ROE of 12.0%

FY21 DPS of 20cps, unfranked

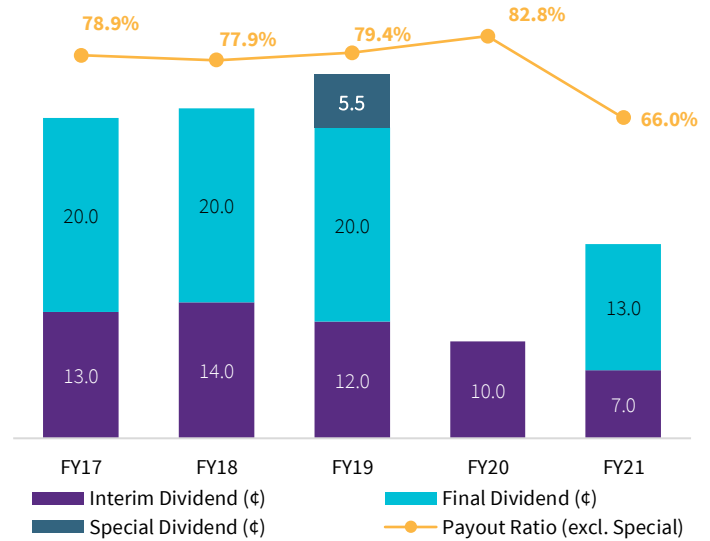
- Represents ~66% of cash earnings
- Committed to 60-80% payout ratio
- Limited capacity to frank eligible dividends over medium term

Capital position

Above mid-point of target benchmark

- At 30 June 2021 IAG's CET1 ratio was 1.06, and 0.93 after payment of final dividend

Dividend history – FY17 to FY21



FY22 outlook

Improved underlying performance expected

IAG is forecasting low single-digit GWP growth and a reported insurance margin of between 13.5-15.5%. Assumptions are outlined in Appendix 1 (page seven of this release).

The 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 Direct Insurance Australia and New Zealand, an insurance profit of at least \$250 million³ over the next three to five years for Intermediated Insurance Australia and delivering further simplification and efficiencies in the cost structure of the company over the next three years.

"We are optimistic about the outlook for IAG and are reintroducing guidance for FY22. The strength of our core business and its sound underlying performance in FY21, our new operating model with clear, embedded executive responsibilities, as well as greater certainty in the economic outlook, mean that we are confident that IAG's underlying performance will continue to improve," Mr Hawkins said.

³ 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 is expected to improve from FY22 onwards through rate and other initiatives.



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Our strategy

Create a stronger, more resilient IAG

"IAG's long-term objective is to deliver top quartile Total Shareholder Returns with a sustainable growth profile. We've reset our strategy to 'create a stronger, more resilient IAG' and to meet this objective we are focusing on four strategic pillars that inform IAG's new operating model and underpin our three-to-five-year strategy," Mr Hawkins said.

Delivering our strategy

Execution is underway, with momentum building

		FY21 Progress	FY22 Focus
<p>Sample of Initiatives</p>	<p>Grow with our customers</p>	<ul style="list-style-type: none"> 75,000 more direct brand customers across Australia & New Zealand, growing at ~2x the population growth rate (>1% customer growth) Customer Loyalty Platform implemented in WA, SA and NT as part of NRMA Insurance online rollout Closed 53 AMI branches in New Zealand, with more customers choosing to engage via phone and online 	<ul style="list-style-type: none"> At least system growth for DIA personal lines through targeted propositions and improved customer experience Continue NRMA Insurance brand rollout Personalised marketing and increased customer engagement
	<p>Build better businesses</p>	<ul style="list-style-type: none"> First tranche of pricing capability uplift delivered Intermediated portfolio performance improving as targeted remediation progresses Motorserve (AU) and Repairhub (AU/NZ) sites expanded as IAG's rapid repair model successfully gets customers cars back on the road quicker 	<ul style="list-style-type: none"> Targeted remediation of IIA portfolios Continued resolution of legacy issues, pricing capability and product information uplift Launch Insurance Academy to further uplift insurance capabilities
	<p>Create value through digital</p>	<ul style="list-style-type: none"> Strategic policy platform launched in WA, SA and NT for NRMA Insurance Home and Motor products 50+ legacy technology assets decommissioned 110,000 hours of efficiency returned to the organisation through robotic process automation 	<ul style="list-style-type: none"> Additional personal lines products deployed on the strategic policy platform Investment in IIA policy platforms to facilitate partner integration Increased leverage of automation and use of digital channels across sales, service and claims
	<p>Manage our risks</p>	<ul style="list-style-type: none"> Group wide Risk Academy launched and ServiceNow risk management system implemented Family & Domestic Violence Policy published with continued support for customers experiencing vulnerability Culture program launched - The IAG Way - uniting employees around a ready for anything and risk intelligent mindset 	<ul style="list-style-type: none"> Actively manage capital within target ranges, renegotiate quota share arrangements and refinance subordinated debt Implement regulatory change agenda and respond to changing requirements across accountability, remuneration and climate change Embed The IAG Way and Risk Culture Standard to create a flexible, dynamic and risk aware workforce



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IAG financial performance

	1H20 A\$m	2H20 A\$m	1H21 A\$m	2H21 A\$m	FY20 A\$m	FY21 A\$m	FY21 vs FY20 Mvt
GROUP RESULTS							
Gross written premium	5,962	6,173	6,188	6,414	12,135	12,602	+3.8%
Gross earned premium	6,105	6,059	6,190	6,155	12,164	12,345	
Reinsurance expense	(2,396)	(2,405)	(2,467)	(2,405)	(4,801)	(4,872)	
Net earned premium	3,709	3,654	3,723	3,750	7,363	7,473	
Net claims expense	(2,433)	(2,577)	(2,281)	(2,526)	(5,010)	(4,807)	
Commission expense	(337)	(336)	(337)	(341)	(673)	(678)	
Underwriting expense	(519)	(565)	(539)	(581)	(1,084)	(1,120)	
Underwriting profit	420	176	566	302	596	868	
Investment income on technical reserves	81	64	101	38	145	139	
Insurance profit	501	240	667	340	741	1,007	+35.9%
Net corporate expense	(152)	213	(1,310)	(200)	61	(1,510)	
Interest	(54)	(38)	(42)	(47)	(92)	(89)	
Profit/(loss) from fee-based business	(2)	(21)	(13)	(16)	(23)	(29)	
Share of profit/(loss) from associates	29	30	18	19	59	37	
Investment income on shareholders' funds	50	(231)	138	168	(181)	306	
Profit/(loss) before income tax and amortisation	372	193	(542)	264	565	(278)	nm
Income tax expense	(90)	53	187	(62)	(37)	125	
Profit/(loss) after income tax (before amortisation)	282	246	(355)	202	528	(153)	
Non-controlling interests	20	(79)	(97)	(53)	(59)	(150)	
Profit/(loss) after income tax and non-controlling interests (before amortisation)	302	167	(452)	149	469	(303)	
Amortisation and impairment	(15)	(15)	(4)	(107)	(30)	(111)	
Profit/(loss) attributable to IAG shareholders from continuing operations	287	152	(456)	42	439	(414)	nm
Net profit/(loss) after tax from discontinued operations	(4)	-	(4)	(9)	(4)	(13)	
Profit/(loss) attributable to IAG shareholders	283	152	(460)	33	435	(427)	nm

	FY20		FY21	
	A\$m	%	A\$m	%
INSURANCE MARGIN IMPACTS - Continuing Business				
Management reported insurance margin	741	10.1%	1,007	13.5%
Net natural peril claim costs less allowance	263	3.6%	84	1.1%
Prior year reserve movements ¹	122	1.7%	81	1.1%
Credit spread movements	46	0.6%	(77)	(1.0%)
Underlying insurance margin	1,172	16.0%	1,095	14.7%

¹IAG defines its 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 or strengthening in excess or below 1% of net earned premium. Comparative periods have not been restated to incorporate the definition from FY21.

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Appendix 1: FY22 guidance and outlook

The following detail on FY22 guidance and outlook has been provided in the FY21 Investor Report.

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 compared to August 2020. Guidance for FY22 includes the following:

- GWP guidance for 'low single-digit' growth in FY22. This incorporates the combined effect of:
 - Modest growth in customer numbers and ongoing rate increases in short tail personal lines in DIA;
 - Continued rate increases across commercial lines in IIA and a focus on portfolio management, which is expected to constrain volume growth; and
 - Largely rate-driven increases in New Zealand.
- 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;
 - No material positive or negative effects from COVID-19 in FY22 (to be revaluated as the impact of the July and August 2021 lockdowns across Australia becomes clearer);
 - The earn through impact of targeted rate increases in FY21, particularly in IIA where underlying profitability is expected to continue recovering;
 - Non-recurrence of the additional expenses associated with IAG's new operating model and property consolidation costs in New Zealand in 2H21;
 - An increase in the natural perils allowance to \$765m (post-quota share) reflecting underlying exposure growth. This has increased from \$658m in FY21 which benefitted from additional reinsurance cover provided by the calendar year 2020 aggregate catastrophe cover (\$1,133m up from \$975m pre-quota share);
 - No allowance for prior period reserve releases or strengthening; and
 - No material movement in foreign exchange rates or investment markets.

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 \$250m³ over the next three to five years for IIA and delivering further simplification and efficiencies in the cost structure of the company over the next three years.