



AASB17 Analyst Presentation

IAG today released the attached presentation on AASB17, the Insurance accounting standard, which applies from 1 July 2023.

IAG Chief Financial Officer, Michelle McPherson, said: “As we have previously indicated, the new accounting standard is not expected to impact on IAG’s underlying economics, cash flows, capital, dividend policy or strategic direction. We are providing today the transitional adjustments to our FY23 P&L and 30 June 2023 Balance Sheet which confirm that the impacts are immaterial.”

An analyst briefing covering the presentation will be held at 11am (Sydney time). The briefing teleconference details are:

Sydney - 02 9007 3187
Australia - 1800 809 971
New Zealand - 0800 453 055

Meeting ID: 10035135

Shortly after the briefing, an audio recording will be available on the Results and Reports page of our website (<https://www.iag.com.au/results-and-reports>).

This release has been authorised by IAG’s Chief Financial Officer.

About IAG

IAG is the parent company of a general insurance group with operations in Australia and New Zealand. IAG’s main businesses underwrite over \$14 billion of insurance premium per annum under many leading brands, including: NRMA Insurance, RACV (under a distribution agreement with RACV), CGU, SGIO, SGIC and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). 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

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

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



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AASB 17 Presentation

4 December 2023

Important information

This presentation contains general information current as 4 December 2023 (unless otherwise stated) and is not a recommendation or advice in relation to any product or service offered by Insurance Australia Group Limited or its subsidiaries (IAG or the Group). 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.

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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. 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 adverse natural peril events causing losses to exceed forecasts, and uncertainties in the Australian and global economic environment). This may cause actual results, outcomes, conditions or circumstances to differ from those expressed, anticipated or implied in such statements.

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 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.

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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>.

Acknowledgement of Country

IAG acknowledges Traditional Owners of Country throughout Australia and recognises the continuing connection to lands, waters and communities.

We pay our respect to Aboriginal and Torres Strait Islander cultures and to Elders past and present.



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Michelle McPherson

Chief Financial Officer

Alana Bailey

CFO, Group Finance

Brett Ward

Chief Actuary

Mark Ley

EGM, Investor Relations

Overview



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01	Key messages
02	Measurement models
03	Level of aggregation
04	Risk adjustment
05	Discount rates
06	Reinsurance cash flows
07	Balance sheet transitional impact
08	FY23 P&L adjustments
09	Reporting

Key messages

AASB 17 accounting principles are broadly consistent with AASB 1023

- First full reporting period under AASB 17 will be for FY24
- AASB 17 is not expected to impact IAG's underlying economics, cash flows, capital, dividend policy or strategic direction
- Minor balance sheet impact on transition
- AASB 17 is not expected to have a material impact on future profitability
- IAG will continue to provide existing reporting metrics of GWP, NEP and Insurance Profit which will continue to form the basis of our guidance

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Objectives of AASB 17 Insurance Contracts

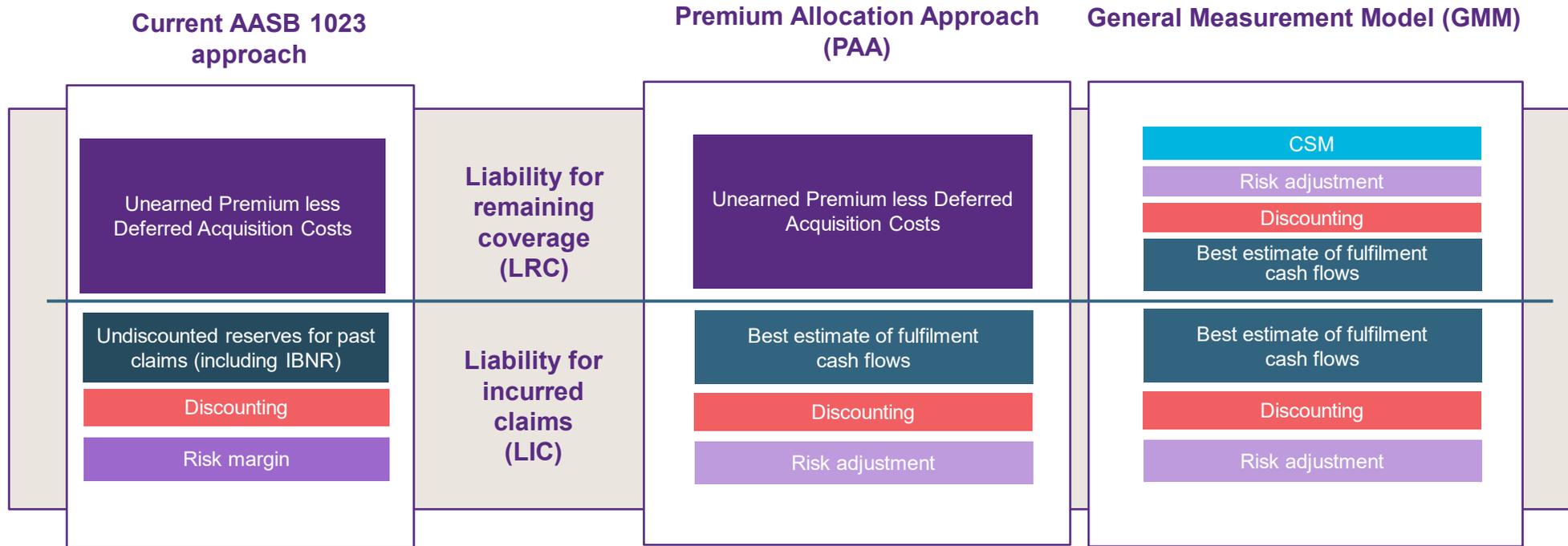
Aims to establish consistent principles for accounting of insurance contracts to improve the consistency and transparency of disclosures

It requires insurers to reflect the current value of their insurance contract liabilities and reinsurance contract assets and aims to reflect the 'true cost' of insurance services

Measurement models

The measurement models under AASB 17 applicable to general insurance are the Premium Allocation Approach (PAA) and General Measurement Model (GMM)

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The primary difference under the GMM is the recognition of the Contractual Service Margin (CSM). This is a new liability that reflects future profitability and is earned over the life of the contract.

Adoption of measurement models

Premium Allocation Approach (PAA)

IAG Assessment

- Vast majority of underwritten insurance contracts <12 months and automatically eligible to apply PAA
- Insurance contracts >12 months such as some workers' compensation and liability also eligible to apply PAA
- Majority of reinsurance contracts, including multi-year quota share arrangements eligible to apply PAA

General Measurement Model (GMM)

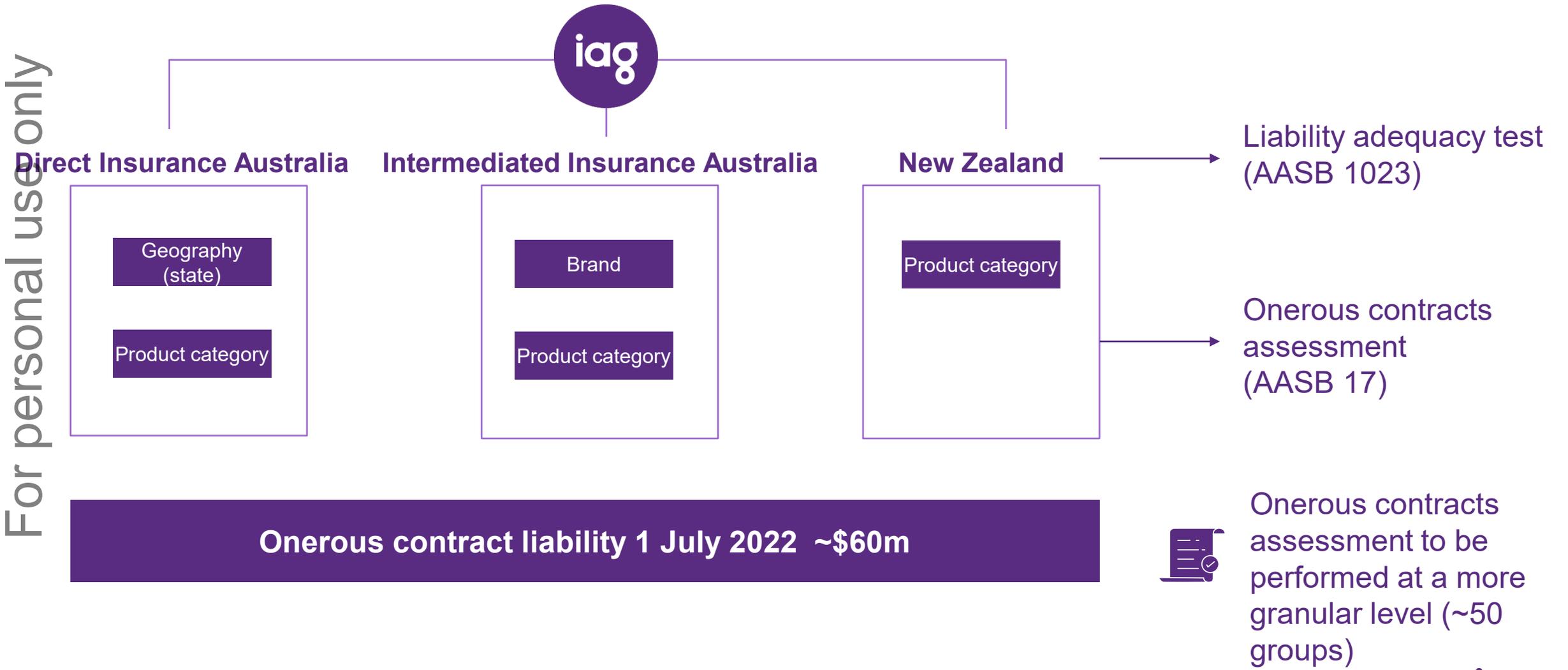
IAG Assessment

Adverse development cover (ADC) contracts will be measured under the GMM as:

- the contract boundaries of the service exceed one year; and
- there is considerable variability in the predicted cashflows before a recovery is made against the ADC

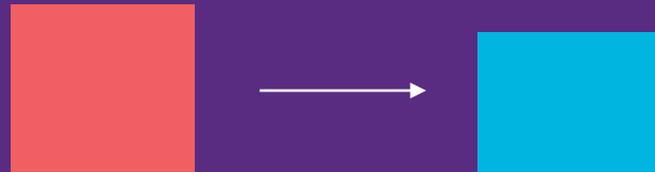
Level of aggregation

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Risk adjustment

Risk adjustment replaces the concept of risk margin under AASB 1023



30 Jun 22
Risk margin

1 Jul 22
Risk adjustment



- ~\$1bn risk margin at 30 June 2022, 90% probability of sufficiency
- ~\$910m risk adjustment at 1 July 2022, ~18% of net liability for incurred claims

- Applies a 'cost of capital' approach in determining the risk adjustment
- The risk adjustment is a higher proportion of the net liability in the Business Interruption (BI) provision
- This risk adjustment is approximately 14% excluding the BI provision
- This will generate an implied probability of sufficiency in excess of 75%
 - No impact on regulatory capital requirements
- This is the largest driver of change in the opening equity on transition to AASB 17

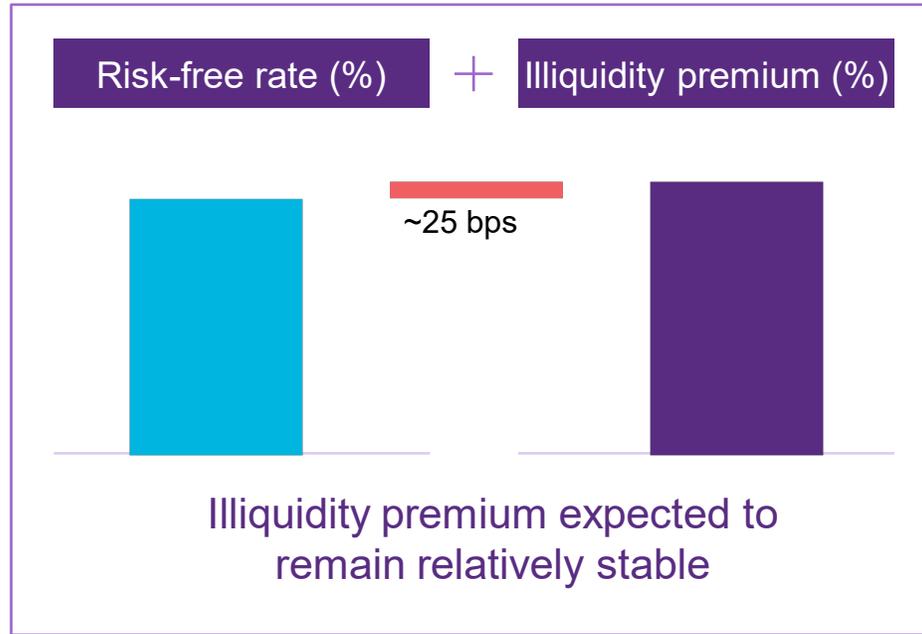
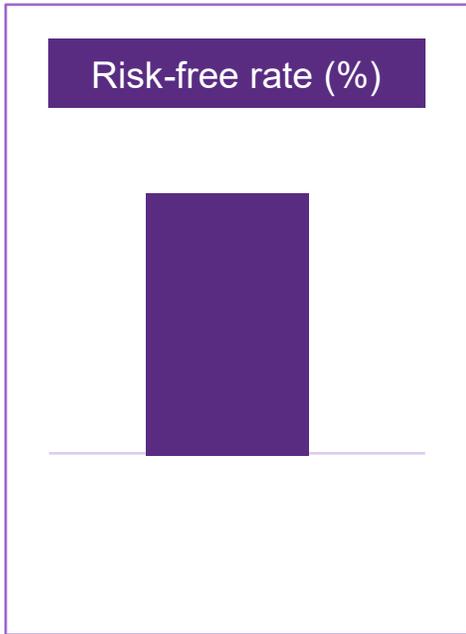
Discount rates

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Claims discounting
Broadly consistent requirements

AASB 1023

AASB 17



IAG will apply a 'bottom-up approach' - use of a risk-free rate adjusted to incorporate an illiquidity premium

Higher discount rate results in an increase in opening equity on transition

Presentation of discount rate movement and associated unwind in net claims expense for management reporting purposes

Reinsurance cash flows

Cash flows deemed to be '*not contingent on claims*' result in a reduction to amounts presented as reinsurance held expense and reinsurance held recoveries

FY23 GROUP RESULTS	AASB 17 Statutory View	Adjustments ¹	AASB 17 Management View
Insurance revenue	13,838	-	13,838
Insurance service expenses	(12,040)	(560)	(12,600)
Reinsurance expenses	(2,023)	(3,496)	(5,519)
Reinsurance income	1,390	3,496	4,886
Insurance service result	1,165	(560)	605

Cash flows are deemed as *not contingent on claims* when they relate to amounts that will be received in all circumstances, regardless of whether a claims event occurs, e.g. profit commission.

These amounts are presented in the reinsurance expense line and are considered to reflect a reduction in the transaction price, equivalent to being charged a lower reinsurance premium.

The adjustment has a NIL net impact on the Profit & Loss statement and will be excluded for management reporting purposes

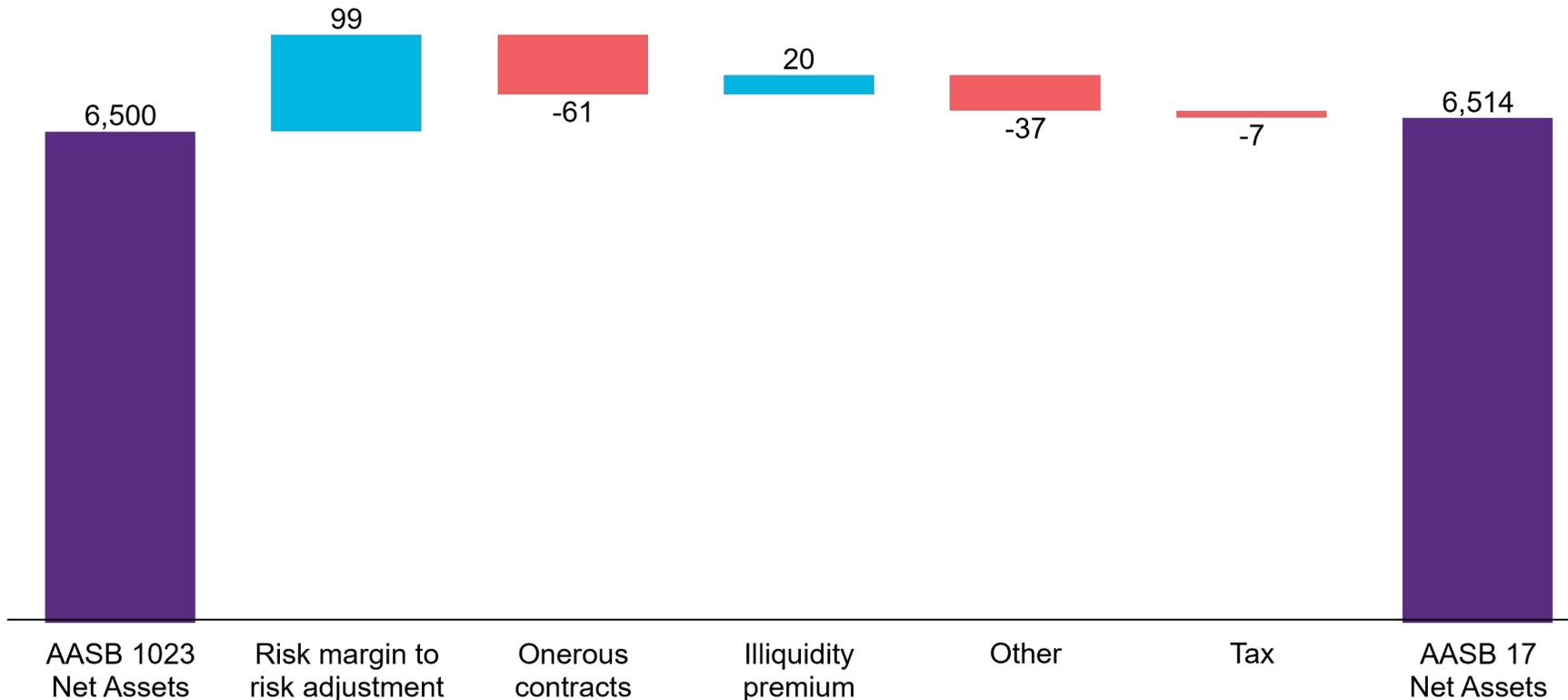
The FY23 adjustment to reflect amounts 'not contingent on claims' has been calculated as ~\$3.5bn across all whole-of-account quota share arrangements

The adjustment effectively reduces amounts presented as reinsurance recoveries and reinsurance expense in the P&L (by the same amount)

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Balance sheet transitional impact at 1 July 2022 (\$m)

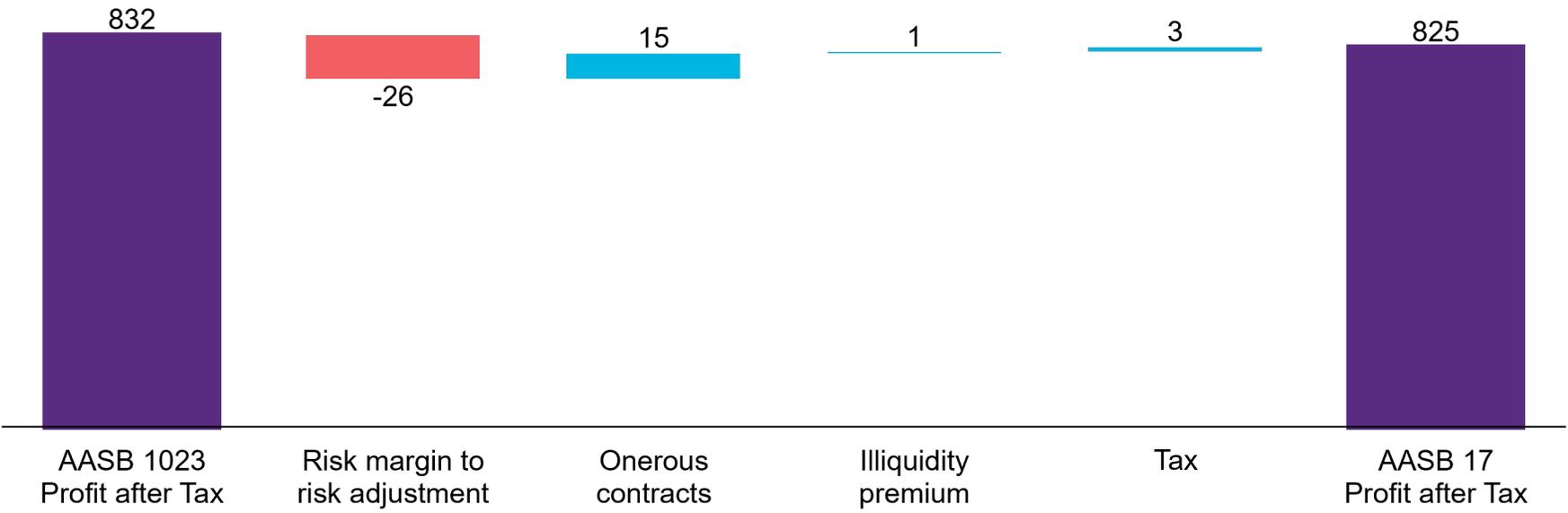
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- On transition to AASB 17 at 1 July 2022, IAG applied the full retrospective approach to all insurance and reinsurance contracts
- The impact of AASB 17 adoption on the Group's reported net assets as at 30 June 2022 is an increase of \$14 million, or <1% of net assets

FY23 P&L adjustments (\$m)

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FY23 Profit & Loss & Balance Sheet

Statutory AASB 17 reconciliation to Management AASB 17

FY23 GROUP RESULTS	AASB 17 Statutory View	Adjustments ¹	AASB 17 Management View
Insurance revenue	13,838	-	13,838
Insurance service expenses	(12,040)	(560)	(12,600)
Reinsurance expenses	(2,023)	(3,496)	(5,519)
Reinsurance income	1,390	3,496	4,886
Insurance service result	1,165	(560)	605
Insurance finance income/(expense)	(82)	-	(82)
Insurance operating profit / (loss)	1,083	(560)	523

¹ BI provision release \$560m and reinsurance cash flow s not contingent on claims ~\$3.5bn

Management AASB 1023 reconciliation to Management AASB 17

FY23 GROUP RESULTS	AASB 1023 Management View	Adjustments	AASB 17 Management View
Gross written premium	14,729	-	14,729
Gross earned premium	13,838	-	13,838
Reinsurance expense	(5,512)	-	(5,512)
Net earned premium	8,326	-	8,326
Net claims expense	(5,866)	(9)	(5,875)
Commission expense	(760)	-	(760)
Underwriting expense	(1,168)	-	(1,168)
Underwriting profit/(loss)	532	(9)	523
Investment income on technical reserves	271	-	271
Insurance profit/(loss)	803	(9)	794
Net corporate expense	537	-	537
Interest	(145)	-	(145)
Profit/(loss) from fee-based business	(37)	-	(37)
Share of profit/(loss) from associates	(13)	-	(13)
Investment income on shareholders' funds	212	-	212
Profit/(loss) before income tax and amortisation	1,357	(9)	1,348
Income tax expense	(429)	3	(426)
Profit/(loss) after income tax (before amortisation)	928	(6)	922
Non-controlling interests	(93)	(1)	(94)
Profit/(loss) after income tax and non-controlling interests (before amortisation)	835	(7)	828
Amortisation and impairment	(3)	-	(3)
Profit/(loss) attributable to IAG shareholders from continuing operations	832	(7)	825
Net profit/(loss) after tax from discontinued operations	-	-	-
Profit/(loss) attributable to IAG shareholders	832	(7)	825

	30 June 2023 \$m
Assets	
Cash held for operational purposes	474
Investments	11,822
Reinsurance contract held assets	7,264
Trade and other receivables	519
Current tax assets	31
Deferred tax assets	657
Right-of-use assets	365
Property and equipment	226
Other assets	87
Investment in joint venture and associates	10
Goodwill and intangible assets	3,632
Total assets	25,087
Liabilities	
Trade and other payables	712
Current tax liabilities	33
Insurance contract liabilities	14,234
Lease liabilities	497
Provisions	393
Other liabilities	22
Interest bearing liabilities	2,139
Total liabilities	18,030
Net assets	7,057
Equity	
Parent interest	6,653
Non controlling interests	404
Total equity	7,057

Risk adjustment represents ~16% of net liability for incurred claims at 30 June 2023



Approach to external reporting

IAG's key management disclosures will remain unchanged. We will continue to provide existing reporting metrics:

- GWP;
- NEP;
- Insurance Profit; and
- Reported and Underlying Margin

These will continue to form the basis of our FY24 guidance

For simplicity, we do not intend to adjust our FY23 management results for comparative purposes

Separately, IAG is continuing its progress towards more streamlined reporting. For 1H24:

- Presentation and ASX announcement unchanged
- Qualitative content in the Investor Report will be included in Financial Statements Operating and Financial Review
- Quantitative content in the Investor Report will be included in Excel data tables

Excel tables for FY23 are now available on IAG's website - www.iag.com.au/results-and-reports



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

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