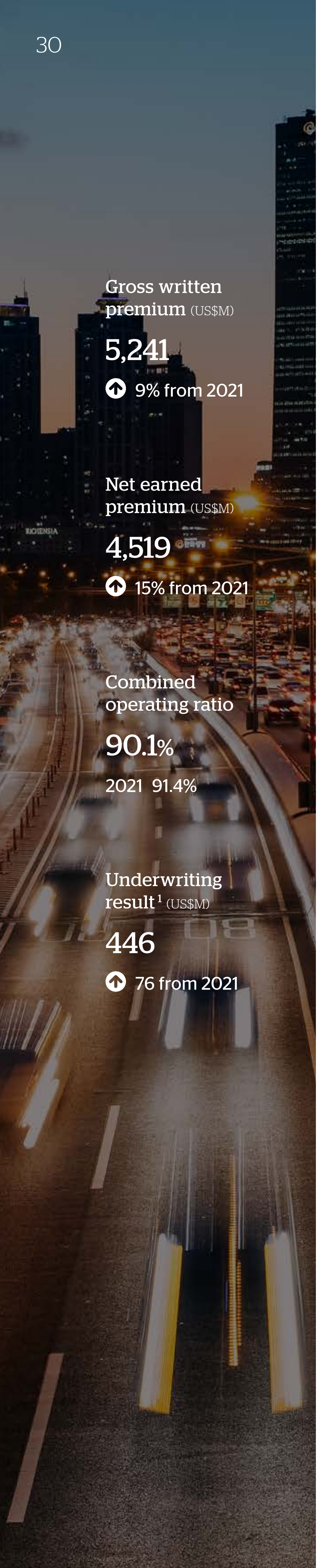


Gross written premium (US$M)

5,241

9% from 2021

Net earned premium (US$M)

4,519

15% from 2021

Combined operating ratio

90.1%

2021 91.4%

Underwriting result[1] (US$M)

446

76 from 2021

Australia Pacific business review

Australia Pacific recorded an improvement in combined operating ratio to 90.1%, sustaining positive rating momentum and targeted volume growth, alongside foundational investment to support medium-term modernisation initiatives.

Sue Houghton Chief Executive Officer, Australia Pacific

2022 overview

Australia Pacific continued to deliver targeted growth in 2022. Ex-rate growth was 2%, or 5% excluding the impact of lower LMI volumes. Growth was broad based across a wide range of classes, though it remains strongest in small and medium sized business customer segments.

The operating environment proved challenging, with elevated natural peril activity and heightened cost inflation. The La Nina climate pattern produced significant flood and storm events across Eastern and Southern Australia in the first and fourth quarters. The frequency and size of natural peril activity exacerbated economic inflationary trends, as the impact of disrupted supply chains was amplified by increased demand for materials and tradespeople.

Against this backdrop, Australia Pacific's result demonstrated encouraging resilience, with a combined operating ratio of 90.1%, which improved by 1.3% compared to the prior period.

In response to claims pressures, premium rates continued to firm, with an average renewal premium rate increase of 9.5% compared to 8.3% in 2021. Pricing momentum built over the course of the year, with fourth quarter average renewal rate increases of 10.4%. Rate increases were most pronounced in short-tail classes due to weather and inflation effects, with several portfolios recording double digit increases alongside favourable adjustment to terms and conditions.

During the year, modernisation initiatives focused on further uplifting capability across customer and partner connectivity, claims, underwriting and pricing. Australia Pacific commenced preparations for the introduction of the Northern Australia Reinsurance Pool, while foundational investment was made to support commencement of a medium-term digitisation project focused on commercial customer segments.

Australia Pacific conducted a review of pricing promises in conjunction with the broader Australian Securities and Investments Commission (ASIC) industry review. As announced in July 2022, this gave rise to a charge of $75 million in relation to instances where policy pricing promises were not fully delivered. Work is progressing to remediate impacted customers.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2022	EX-PRICING 2022	2021	2020	2019
Gross written premium	US$M	**5,188**	**5,241**	5,215	4,079	3,920
Gross earned premium	US$M	**4,944**	**4,997**	4,731	3,985	3,885
Net earned premium	US$M	**4,466**	**4,519**	4,265	3,626	3,568
Net incurred claims	US$M	**2,688**	**2,688**	2,640	2,316	2,223
Net commission	US$M	**613**	**613**	600	534	526
Underwriting expenses	US$M	**607**	**600**	601	555	519
Underwriting result	US$M	**558**	**618**	424	221	300
Net claims ratio	%	**64.0**	**63.3**	63.2	62.8	60.7
Net commission ratio	%	**13.7**	**13.5**	14.1	14.7	14.8
Expense ratio	%	**13.6**	**13.3**	14.1	15.3	14.5
Combined operating ratio	%	**91.3**	**90.1**	91.4	92.8	90.0
Statutory combined operating ratio	%	**87.5**	**86.3**	90.1	93.9	91.6
Insurance profit margin	%	**12.2**	**13.3**	10.4	6.9	13.6

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.

Underwriting performance

Australia Pacific reported a combined operating ratio of 90.1% compared with 91.4% in the prior period.

Underwriting profit of $446 million increased by 31% relative to the prior year in constant currency terms.

Strong results were delivered across LMI, New Zealand, Pacific, CTP and Australian commercial portfolios. Partly offsetting this were higher catastrophe and weather-related claims in Householders and Strata.

The combined commission and expense ratio improved to 26.8% from 28.2% in the prior period.

In the fourth quarter, the High Court declined leave to appeal test cases relating to COVID-19 business interruption claims. As a result, uncertainty relating to the range of outcomes has reduced, leading to a release of divisional claims provisions and centrally held risk margin.

Claims are now being processed and paid based on the Federal Court ruling.

Premium income

Gross written premium increased by 9% to $5,241 million, reflecting premium rate increases, sustained strong retention levels and new business, partially offset by lower volumes in LMI.

Premium rate increases improved to 9.5% from 8.3% in the prior period. Increases were broad based, though more pronounced in short-tail portfolios exposed to heightened natural peril activity and increased inflation. Premium retention remained strong at 87%, broadly consistent with the prior period.

Commercial gross written premium grew 14% underpinned by farm, commercial motor, commercial packages and engineering.

New Zealand & Pacific achieved gross written premium growth of 6% despite exiting the Smartpak facility in April.

Excluding LMI, Consumer achieved gross written premium growth of 12%, primarily reflecting higher rate increases. LMI gross written premium declined 43% to $167 million, driven by reduced housing market activity following strong transaction volumes in the prior year.

Claims expense

Australia Pacific's net claims ratio was stable over the year at 63.3%.

The ex-cat claims ratio of 55.8% increased 1.6% relative to the prior period. The benefit of higher earned premium rates and lower claims handling costs was offset by increased frequency of non-catastrophe weather claims, and heightened inflation in property and motor portfolios.

The net catastrophe claims ratio of 8.2% increased by 2.5% compared to the prior period. The result was underscored by the significant East Coast flood and storm event in the first quarter, and the multiple flood and storm events impacting South-Eastern Australia in the fourth quarter.

The size, breadth, frequency and mix of natural peril activity (both catastrophe and non-catastrophe) has compounded inflationary impacts by increasing demand for tradespeople and materials, and supply chain disruption.

Short-tail inflation assumptions were strengthened, to reflect observed trends in average claims cost. In long-tail reserves, assumptions have also been increased for average wage growth and inflation.

Notwithstanding, the result included favourable prior accident year claims development of $44 million, compared with strengthening of $111 million in the prior period. Favourable experience in LMI and CTP more than offset the aforementioned inflation related strengthening, and strain in workers' compensation excess of loss, which was closed during the year.

In LMI, asset quality continued to improve, with 90-day arrears at 0.52%, down from 0.68% at 31 December 2021 and approximately 40 basis points below pre-COVID-19 levels. As a result, claims experience has been favourable and prior accident year claims liabilities held in relation to COVID-19 were released.

Commission and expenses

The combined commission and expense ratio improved to 26.8% from 28.2% in the prior period.

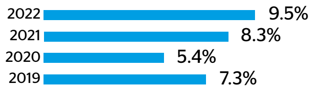
The net commission ratio reduced to 13.5% from 14.1% in the prior period reflecting business mix, commission income associated with the LMI quota share reinsurance.

The expense ratio improved to 13.3% from 14.1% in the prior period, despite higher investment in modernisation and technology initiatives, and investment in staff to support business growth.

Average renewal premium rate increase

9.5%

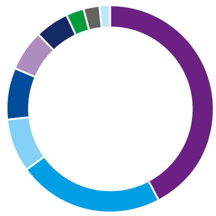
1.2% from 2021



Gross written premium by segment

	2022 %
Commercial	60.4
Consumer	30.9
New Zealand & Pacific	8.7

Gross written premium by class of business



	2022 %
Commercial & domestic property	42.3
Motor & motor casualty	22.7
Agriculture	8.4
Public/product liability	8.0
Workers' compensation	6.6
Financial & credit	5.1
Marine, energy & aviation	3.0
Professional indemnity	2.4
Accident & health	1.5

Combined commission and expense ratio

26.8%

1.4% from 2021