
IAG EXPECTS TO REPORT FY14 INSURANCE MARGIN OF 18.0-18.3%



Insurance Australia Group Limited (IAG) advises that it expects to report an insurance margin of between 18.0% and 18.3% for the financial year ended 30 June 2014 (FY14), compared to previous guidance of 14.5-16.5%.

The Group also provides details of the expected financial impacts associated with its new Australian operating model, which was announced in May 2014, as well as the reinsurance protection acquired for the Wesfarmers insurance underwriting business from 1 July 2014.

FY14 FINANCIAL PERFORMANCE

IAG Managing Director and CEO, Mr Mike Wilkins, said the Group's financial performance in FY14 had benefited from favourable natural peril and credit spread outcomes in the second half of the financial year which have caused full year insurance margin expectations to be revised upwards.

"Our reported insurance margin outcome is now expected to surpass previous guidance, with a revised expectation of between 18.0% and 18.3%. This reflects the relatively benign natural peril activity in the second half of the financial year, notably in Australia, and a more favourable financial impact from narrower credit spreads than previously anticipated. The underlying performance of the Group has remained strong," Mr Wilkins said.

The revised reported insurance margin expectation for FY14 is based on preliminary results which remain subject to finalisation, audit completion and Board approval. The expected reported insurance margin range is after the following anticipated impacts:

- A net natural peril claim expense of around \$555 million, compared to a guidance assumption in line with full year allowance, of \$640 million. This includes a second half outcome of approximately \$220m, which is \$100 million lower than the related allowance for the period and reflects relatively benign experience in Australia, partially offset by significant storm activity in New Zealand;
- A favourable credit spread impact of about \$100 million, compared to a guidance assumption of \$39 million, being the benefit recognised in the opening half of the financial year. A further narrowing of spreads applicable to the Group's fixed interest portfolio has occurred in 2H14; and
- Reserve releases just below 3% of net earned premium (NEP), compared to a previous expectation of around 3%. These have been derived from continued favourable experience in long tail classes in a low inflationary environment.

The anticipated reported insurance margin is based on expected NEP of approximately \$8.64 billion.

The Group also expects to report gross written premium (GWP) growth of approximately 3% for FY14. This compares to the 3-5% GWP growth guidance range presented on 23 January 2014, and reflects an ongoing relative absence of input cost pressures and associated need for premium rate increases. After allowing for the cessation of the Victorian Fire Services Levy at the end of FY13, GWP growth in FY14 is expected to be over 4%.

"The underlying quality of our expected results for FY14 places IAG in a strong position to deliver on the next phase of the Group's development, as we integrate the Wesfarmers insurance underwriting business in both Australia and New Zealand and realise the associated synergies, and as we move to our new operating model in Australia. In addition, we remain confident of improved returns from our Asian operations over the medium to longer term," said Mr Wilkins.

NEW AUSTRALIAN OPERATING MODEL

On 22 May 2014 IAG announced it was implementing a new operating model in Australia. This is expected to create a more customer-focused and efficient organisation, allowing the Group to better leverage its scale and insurance expertise to deliver improved outcomes for its customers, people and shareholders.

Implementation of the new operating model is expected to result in associated one-off pre-tax restructuring costs of approximately \$100 million, of which \$50 million will be recognised in FY14. A related annualised pre-tax benefit of \$90 million is expected to be realised within a two-year timeframe, as the new operating model allows IAG to deliver savings by removing duplication and further improving its management of procurement and supply chain activities.

IAG previously identified synergies and costs stemming from the integration of the Wesfarmers insurance underwriting business, of \$140 million and \$120 million pre-tax respectively. Combined with the effects of the new operating model, IAG now expects to realise an annualised pre-tax benefit of approximately \$230 million and recognise one-off pre-tax costs of approximately \$220 million (including the \$50 million identified in FY14) over the course of the next two years.

The FY14 results are expected to include a total pre-tax net corporate expense of approximately \$70 million, comprising:

- The aforementioned \$50 million of restructuring costs associated with implementation of the new operating model in Australia; and
- Approximately \$20 million of transaction costs related to the acquisition of the Wesfarmers insurance underwriting business.

The total post-tax net corporate expense will be excluded from cash earnings for FY14 dividend calculation purposes.

REINSURANCE UPDATE

From 1 July 2014, the Group has acquired standalone reinsurance protection for the combined Wesfarmers insurance underwriting business in Australia and New Zealand. This comprises a main catastrophe cover for losses up to \$1.35 billion, including one prepaid reinstatement, with the Group retaining the first \$50 million of each loss. As a result, the Group's maximum event retention increased to \$225 million on 1 July 2014, from \$175 million.

FY14 RESULTS ANNOUNCEMENT

The Group will announce full details of its FY14 results on 19 August 2014, including the outlook for FY15.

About Insurance Australia Group

Insurance Australia Group Limited (IAG) is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing more than 15,000 people. Its businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China. For further information please visit www.iag.com.au.

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