
IAG REPORTS SOUND OPERATING PERFORMANCE FOR 1H15



Insurance Australia Group Limited (IAG) today reported a sound operating performance in an increasingly competitive environment, posting an insurance profit of \$693 million for the half year ended 31 December 2014, down from \$758 million in 1H14. This equates to a reported insurance margin of 13.4% compared to 17.5% for 1H14.

IAG's underlying margin¹ performance remained strong at 13.3%. This was a slight reduction on the 13.7% produced in 1H14, largely due to the first time inclusion of the former Wesfarmers business.

Gross written premium (GWP) increased by 17.1% to \$5.6 billion in 1H15. This increase was mainly attributable to the addition of the former Wesfarmers business.

Volume growth broadly in line with system was recorded in most segments, and notably in the Personal Insurance business. However, reported GWP was influenced by increased competitive activity, particularly in the commercial market in both Australia and New Zealand.

The Board has declared a fully franked interim dividend of 13 cents per share which is in line with the 1H14 dividend. The interim dividend will be paid on 1 April to shareholders registered at 5pm on 4 March 2015.

IAG Managing Director and Chief Executive Officer Mike Wilkins said the company was on track to deliver another solid full year performance.

"Our underlying performance has remained strong and we have made significant progress in moving to our new operating model in Australia, and integrating the former Wesfarmers business. This ensures we can efficiently respond to the changing business environment, while also maintaining our strong underwriting discipline.

"IAG remains committed to delivering to our customers and their communities; helping them to be safer, stronger and more confident about their futures," Mr Wilkins said.

Modest early synergies from the acquisition of the Wesfarmers business were realised in 1H15 and the company remains confident it will achieve its targeted pre-tax run rates of \$80 million by the end of FY15 and \$230 million at the conclusion of FY16.

The reported insurance margin of 13.4% was impacted by:

- Net natural peril claim costs of \$421 million, which exceeded the half year allowance by \$71 million, and included \$165 million for the November Brisbane storm event;
- Prior period reserve releases of \$92 million, equivalent to 1.8% of net earned premium (NEP), down from 4.3% in 1H14 but in line with the Group's FY15 expectations of 2%; and
- A similar-sized favourable impact from the narrowing of credit spreads, of \$40 million, compared to \$39 million in 1H14.

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 in excess of 1% of NEP; and
- Credit spread movements.

Investment income on shareholders' funds was \$137 million, more than 40% lower than the prior corresponding period which saw particularly strong equity market returns.

Net profit after tax declined by nearly 10% to \$579 million.

In December 2014, IAG increased its gross claims reserves for the FY11 Canterbury earthquakes in New Zealand by NZ\$950 million. These reserves remain within the Group's applicable reinsurance covers. While the Group believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events, there remains a degree of uncertainty as to the ultimate cost.

DIVISIONAL RESULTS

Personal Insurance, which represents 50% of Group GWP, performed well with an underlying margin of 14.0%. A reported margin of 16.0% included reserve releases above long term expectations and a favourable credit spread impact of nearly 1%. GWP growth was 4.3%, sourced from incoming former Wesfarmers personal insurance volumes together with modest like-for-like growth which was broadly in line with system.

Commercial Insurance GWP growth of 43.9% reflected the addition of the former Wesfarmers business. Like-for-like GWP growth was slightly negative, reflecting tougher commercial market conditions. The business has maintained a double digit underlying margin, but of a slightly reduced scale as the former Wesfarmers business contributed for the first time. Reported margin was lower, at 6.6%, reflecting significantly lower reserve releases and following an adverse natural peril experience in the half.

New Zealand has continued to register a strong underlying performance, while the reported margin of 19.2% was enhanced by a particularly benign natural perils experience. The business has maintained its market-leading position, with GWP growth of 26.2% centred on the acquired Wesfarmers business. Modest like-for-like growth in personal lines was countered by some volume loss as a result of tougher commercial market conditions.

Asia saw solid GWP growth of nearly 5% on a proportional basis, fuelled by a resumption of growth in Thailand and continued strong growth in India. Asia's overall earnings contribution increased to \$17 million (1H14: \$7 million), as the established businesses in Thailand and Malaysia continued to perform well. The combined contribution from developing markets (India, China and Vietnam) moved from loss to a small profit.

CAPITAL POSITION

IAG's capital position remains strong at 1.62 times the Prescribed Capital Amount (PCA) as at 31 December 2014. This is above the Group's targeted range of 1.4-1.6 times the PCA. The Common Equity Tier 1 (CET1) ratio was 1.04 at 31 December 2014, against a target range of 0.9-1.1.

The Group's debt to total tangible capitalisation ratio at 31 December 2014 was 35.6%. This places the Group just above the mid-point of its targeted range of 30-40%.

OUTLOOK

For FY15, the Group continues to expect to deliver a reported insurance margin in the range of 13.5-15.5%, and expects GWP growth to be at the lower end of its 17-20% guidance range.

Underlying assumptions incorporated in the reported margin guidance include:

- Net losses from natural perils in line with allowance of \$700 million;
- Prior period reserve releases equivalent to around 2% of NEP; and
- No material movement in foreign exchange rates or investment markets in 2H15.

"We remain optimistic about the longer term performance of our business, as we realise the full benefit of the major initiatives we have underway, and we progressively realise the potential attached to our Asian business," Mr Wilkins said.

IAG FINANCIAL PERFORMANCE

	1H14 A\$m	2H14 A\$m	1H15 A\$m
GROUP RESULTS			
Gross written premium	4,786	4,993	5,603
Gross earned premium	4,885	4,836	5,805
Reinsurance expense	(565)	(512)	(651)
Net earned premium	4,320	4,324	5,154
Net claims expense	(2,508)	(2,693)	(3,481)
Commission expense	(400)	(411)	(518)
Underwriting expense	(741)	(751)	(889)
Underwriting profit	671	469	266
Investment income on technical reserves	87	352	427
Insurance profit	758	821	693
Net corporate expense	(1)	(67)	(44)
Interest	(47)	(51)	(52)
Profit from fee based business	12	-	10
Share of profit/(loss) from associates	(3)	5	9
Investment income on shareholders' funds	233	163	137
Profit before income tax and amortisation	952	871	753
Income tax expense	(266)	(206)	(68)
Profit after income tax (before amortisation)	686	665	685
Non-controlling interests	(34)	(63)	(63)
Profit after income tax and non-controlling interests (before amortisation)	652	602	622
Amortisation and impairment	(10)	(11)	(43)
Profit attributable to IAG shareholders	642	591	579

	1H14		1H15	
INSURANCE MARGIN	A\$m	%	A\$m	%
Reported insurance margin	758	17.5	693	13.4
Net natural peril claim costs less allowance	15	0.4	71	1.4
Reserve releases in excess of 1% of NEP	(144)	(3.3)	(40)	(0.8)
Credit spread movements	(39)	(0.9)	(40)	(0.8)
Underlying insurance margin	590	13.7	684	13.3

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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