



# Financial results

Half year ended 31 December 2017

**Peter Harmer**  
Managing Director and  
Chief Executive Officer

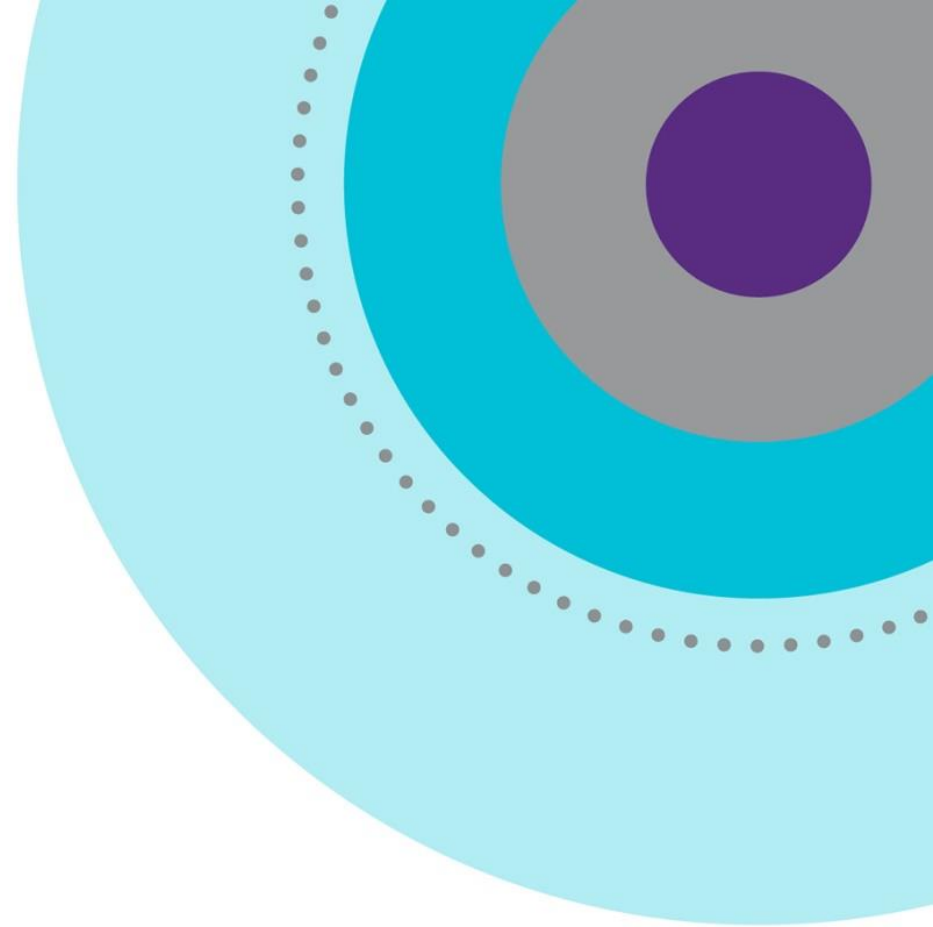
**Nick Hawkins**  
Chief Financial Officer

14 February 2018

# Overview

**Peter Harmer**

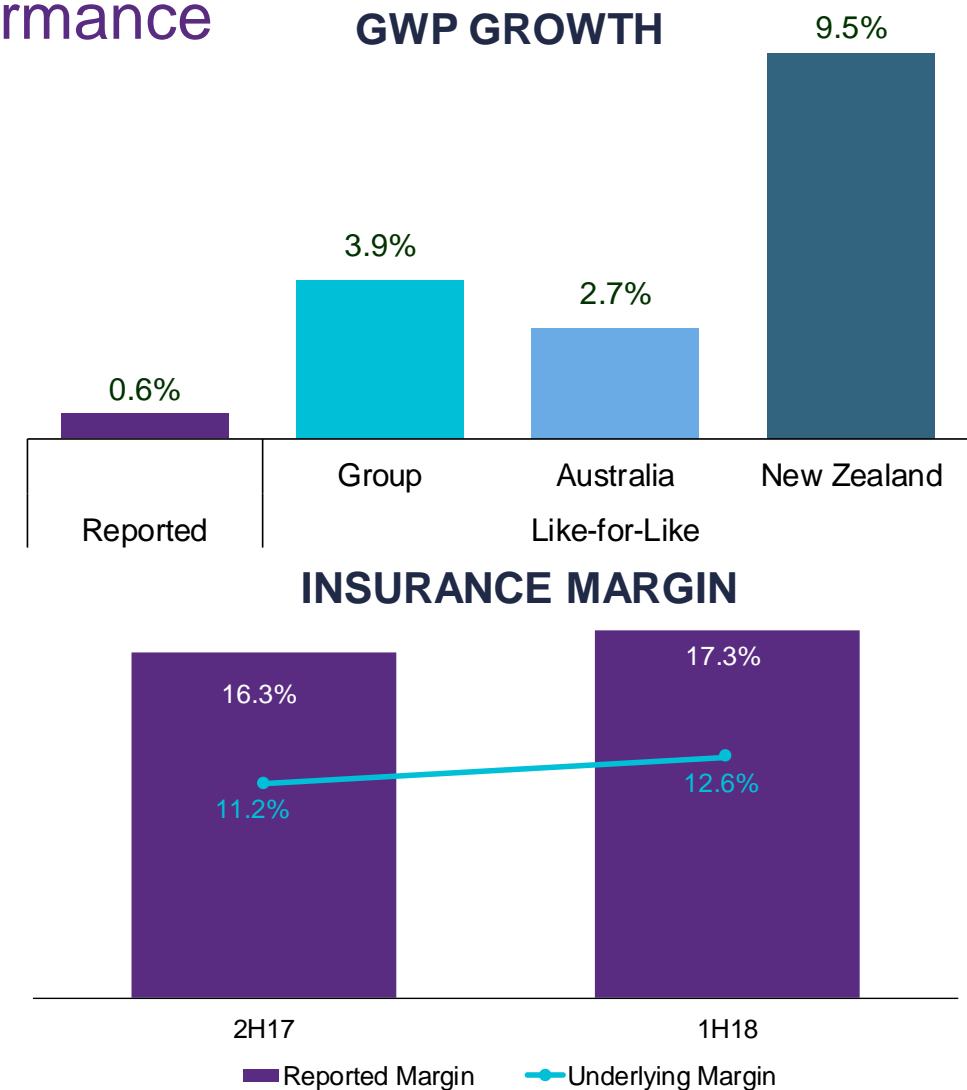
Managing Director and Chief Executive Officer



# 1H18 highlights

## Encouraging improvement in underlying performance

- Like-for-like GWP growth of nearly 4%
  - Short tail rate response to claims inflation
  - Ongoing momentum in commercial lines
- Reported margin of 17.3%
  - Favourable peril, reserve release and credit spread outcomes
- Underlying margin improvement vs 2H17
  - Earn through of rate increases, more normal commercial large losses
- Optimisation program progressing to plan
- Combined 12.5% quota share agreements completed
- Increased interim dividend of 14cps
  - Reflecting strong capital position and positive outlook
- Increased FY18 reported margin guidance (15.5-17.5%)
  - Raised reserve release expectation
- Asia strategic review announced – complete by end of calendar 2018



# Operational scorecard

## Customer, partnering and simplification activities tracking to plan

### 1H18 activities

### 2H18 priorities



#### Customer

- Deployed brand positioning in line with core customer segments
- Delivered modernised pricing approach using real-time models to optimise new business conversion
- Implemented more detailed, active, real-time advocacy and experience measures

- Extend customer model and customer research to New Zealand
- Accelerate digital transformation, focused on motor claims and SME direct
- Establish API strategy and governance to support ecosystem development and partnering opportunities



#### Simplification

- Progressed claim systems consolidation, with all motor claims in Australia lodged on single platform
- Commenced decommissioning of legacy systems
- Completed second tranche of operational partnering, and commenced third tranche
- Consolidated Australian insurance licences

- Complete claims component of systems consolidation
- Continue transition of targeted activities to operational partners
- Embed operational partnering excellence framework
- Enhance preferred repairer motor claims supply chain model



#### Agility

- Embedded Australia Division operating structure, effective July 2017
- Established Leading@IAG as management and leadership framework
- Launched Firemark Labs in Sydney and Singapore to drive innovation

- Co-creation of new products and services via Firemark Labs – collaboration and investment in future capabilities
- Pursuit of new partnership opportunities
- Continue to invest in workforce to build the skills and capabilities for the workforce of the future

# Strategy

Three strategic priorities

Eleven capabilities

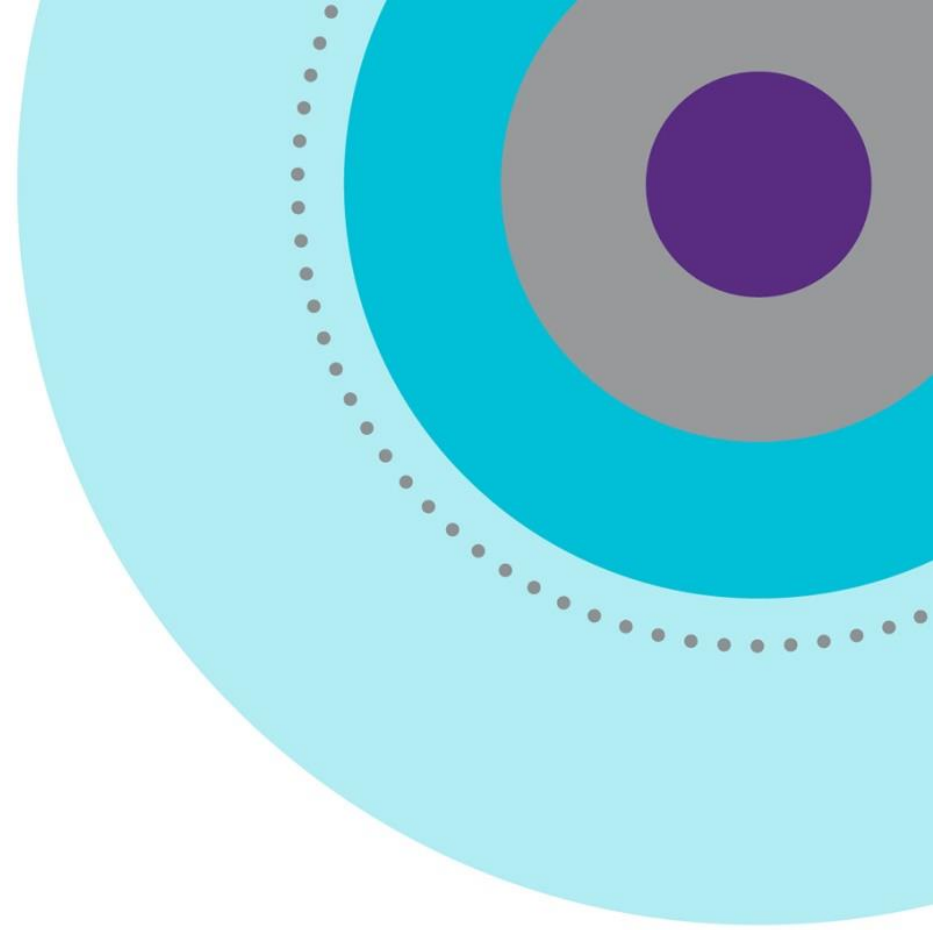
Optimise our core insurance business while creating future growth options



# Financials

**Nick Hawkins**

Chief Financial Officer



# Financial summary

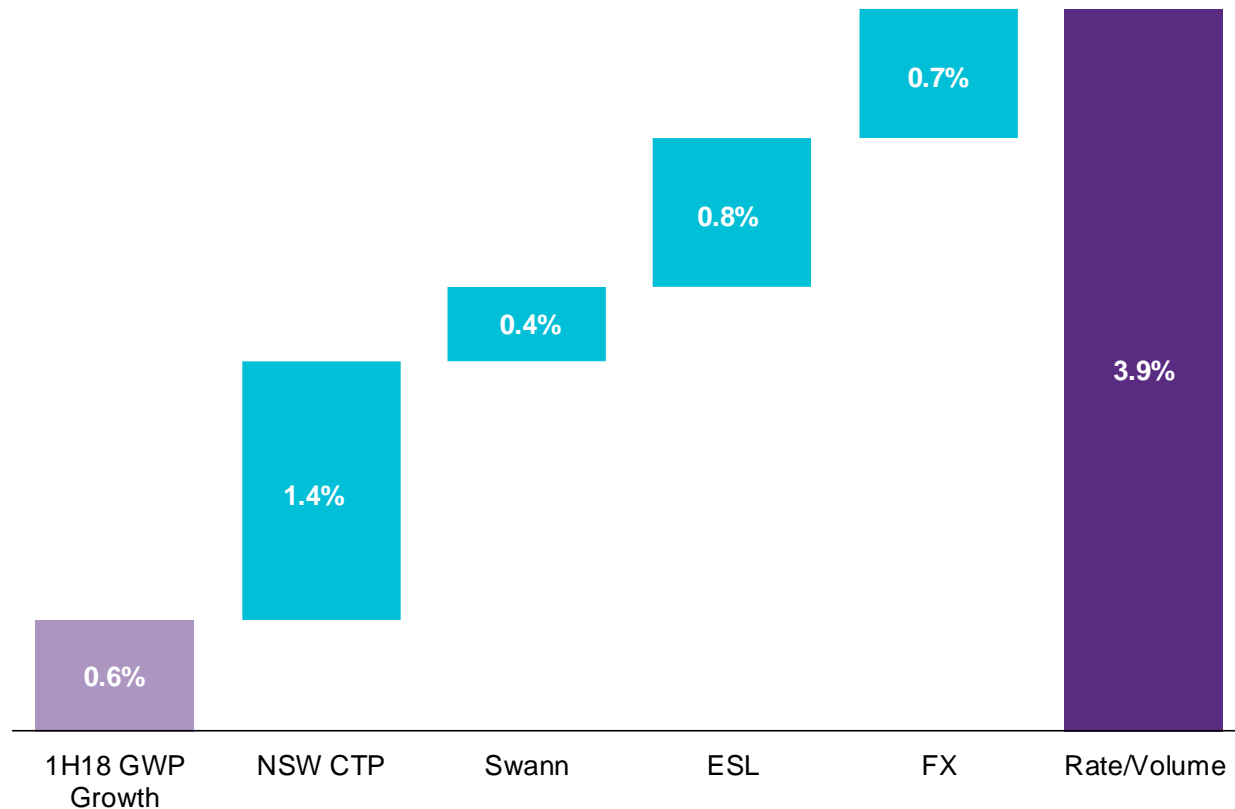
Cash ROE of 19.1%

	1H17	1H18	CHANGE
<b>GWP (\$m)</b>	5,802	5,834	0.6% ▲
<b>Insurance profit (\$m)</b>	571	743	30.1% ▲
<b>Underlying margin (%)</b>	12.6	12.6	Flat
<b>Reported margin (%)</b>	13.5	17.3	380bps ▲
<b>Shareholders' funds income (\$m)</b>	105	138	31.4% ▲
<b>Income tax expense (\$m)</b>	109	213	95.4% ▲
<b>Net profit after tax (\$m)</b>	446	551	23.5% ▲
<b>Cash EPS (CPS)</b>	19.98	26.66	33.4% ▲
<b>Ordinary dividend (CPS)</b>	13.00	14.00	7.7% ▲
<b>Cash ROE (%)</b>	14.8	19.1	430bps ▲
<b>CET1 multiple</b>	1.09	1.19	10bps ▲

# GWP growth

Rate-driven growth – like-for-like improvement of around 4%

## GWP GROWTH VS 1H17



## Underlying growth of around 4%

- Rate increases addressing claims inflation, notably motor
- Ongoing momentum in commercial rates
- Overall relatively steady volumes – growth in motor and CTP, lower commercial

## Reported GWP growth of 0.6%

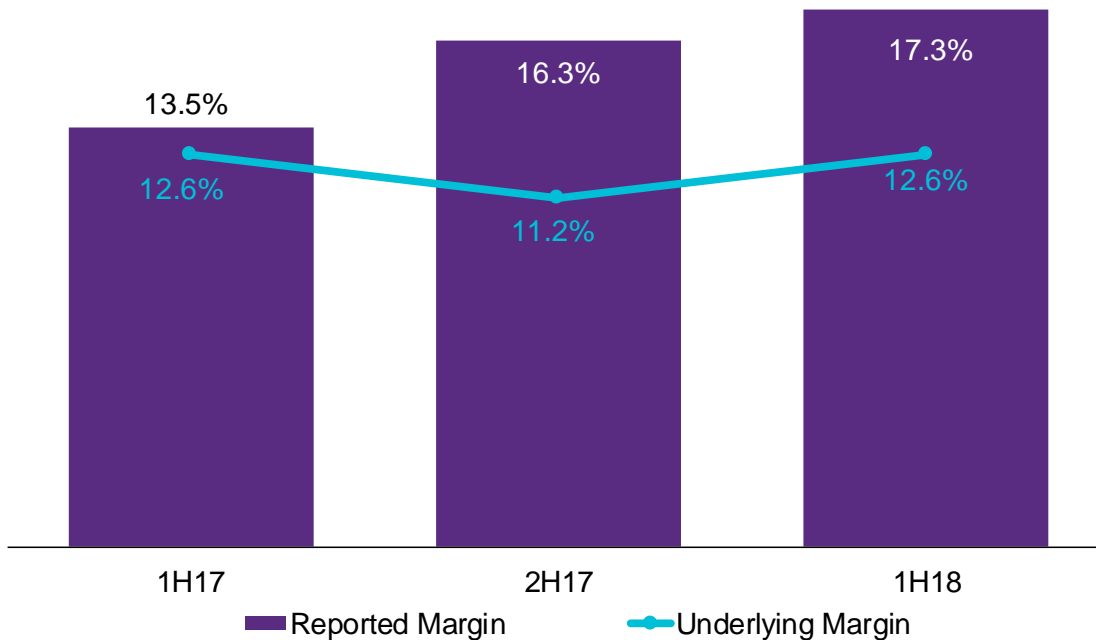
- Outcome in line with expectations
- Several one-off adverse effects absorbed in 1H18
  - NSW CTP reform-related refunds and lower pricing – nearly \$80m
  - \$23m from discontinued Swann business areas
  - Reintroduction of ESL in NSW – ~\$50m effect to reverse in 2H18
  - Adverse FX movement – notably NZ\$
- FY18 'low single digit growth' guidance maintained



# Insurance margin

## Improvement in underlying margin performance over 2H17

### MARGIN TRENDS – 1H17-1H18



### Improved underlying margin of 12.6% (vs 2H17)

- Reduced pressure on motor profitability as increased rates earn through
- Maintained improvement seen in 2H17 in NSW CTP, following initial reform measures
- Earn-through of prior period commercial rate increases
- Reversion to more normal Australian large commercial loss experience

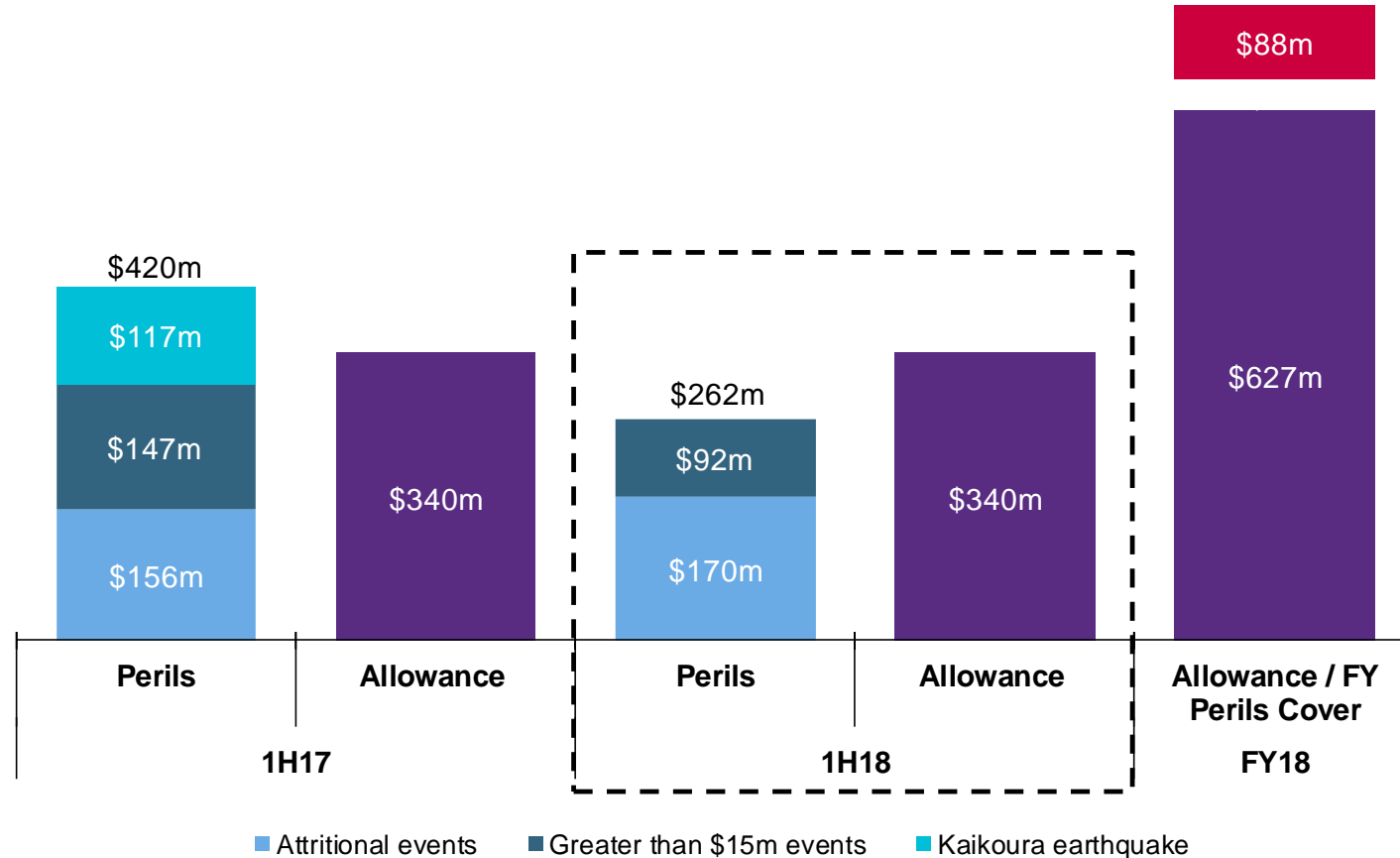
### Higher reported margin of 17.3% (1H17: 13.5%)

- Higher than originally expected reserve releases: 2.8% of NEP
- Larger favourable credit spread movement (\$47m vs \$5m)
- Net natural peril costs \$78m below allowance

# Natural perils

## 1H18 outcome below allowance owing to aggregate protection

### NATURAL PERILS EXPERIENCE VS ALLOWANCE



### 1H18 net perils \$78m below allowance

- ~\$120m of reinsurance protection from calendar 2017 aggregate cover
- Three events, including Melbourne hailstorm, capped at \$20m each
- Attritional costs c.9% higher than 1H17

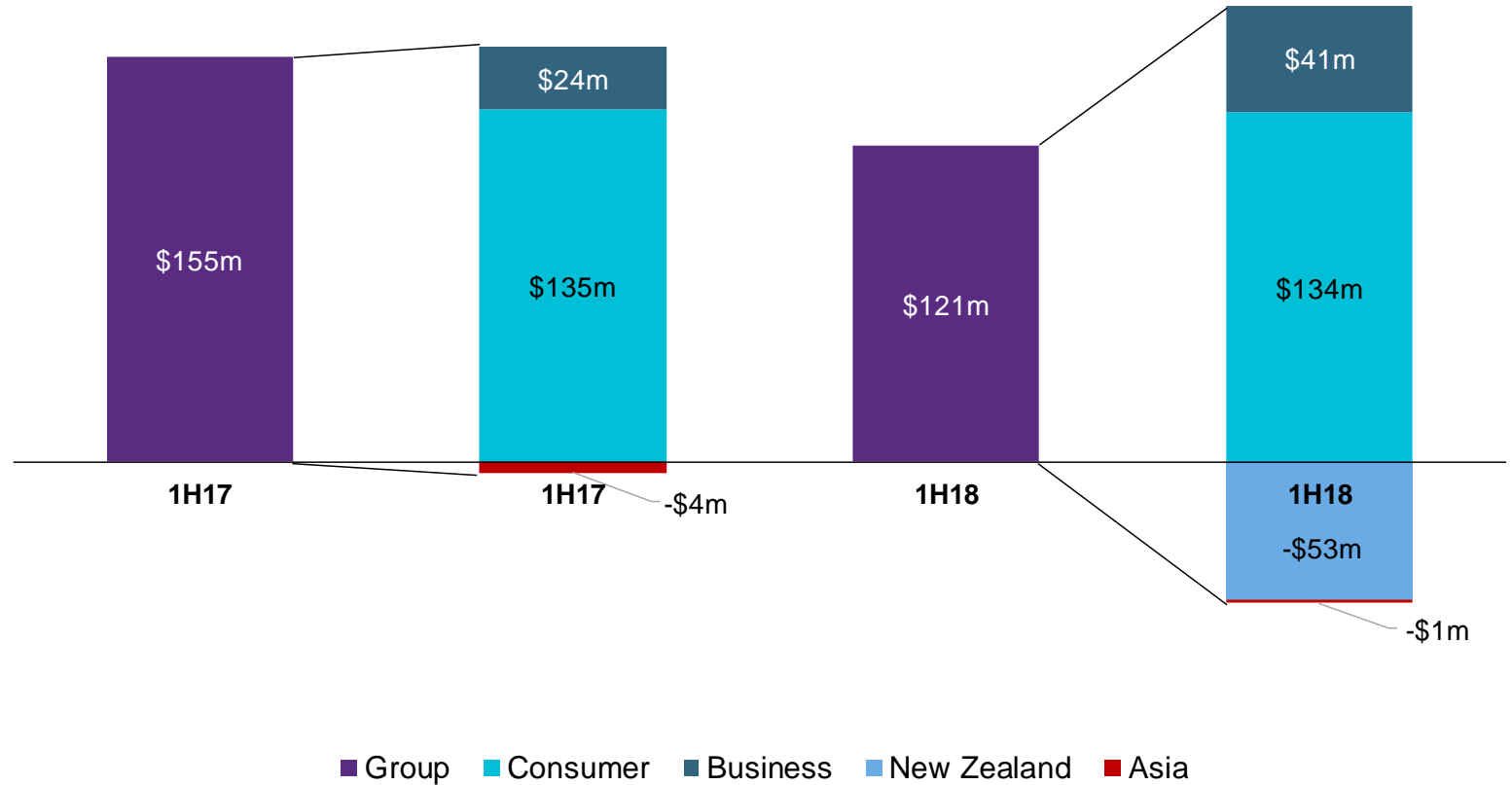
### FY18 allowance of \$627m

- Takes into account 12.5% quota shares from 1 January 2018 (2H18 allowance \$287m)
- MER of \$169m at 1 January 2018
- FY18-specific perils cover of \$88m excess \$664m

# Reserve releases

Higher than originally expected outcome (2.8% of NEP)

Around 3% expected in FY18



# Australia

## Positive underlying growth and margin trends

### Underlying GWP growth of nearly 3%

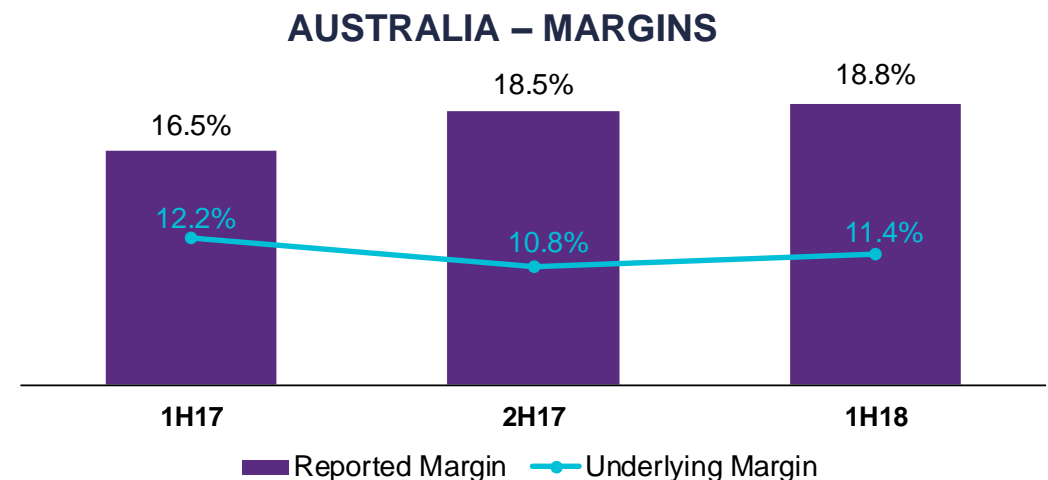
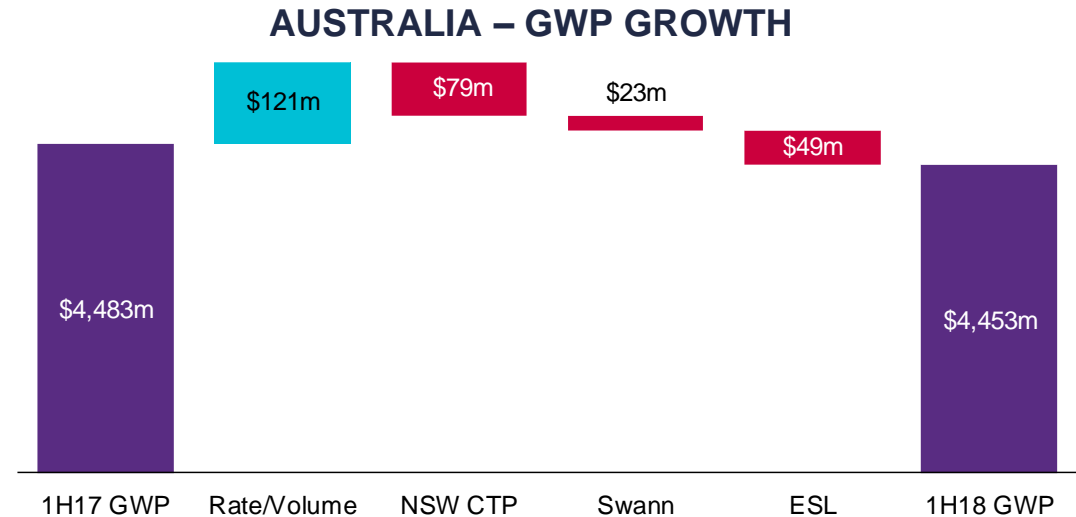
- Largely rate-driven growth of 4.9% in personal motor, countering claims inflation
- 2.9% growth in home prior to ESL collection change effect
- Average rate increases of ~5% in commercial classes
- 14% reduction in CTP – NSW reform influences
- Relatively flat overall volumes – growth in motor and CTP, lower new business in commercial

### Sound underlying margin of 11.4%

- Reduced pressure on motor profitability
- Improved NSW CTP profitability vs 1H17 – lower frequency
- Commercial property large losses at more normal levels

### Reported margin of 18.8%

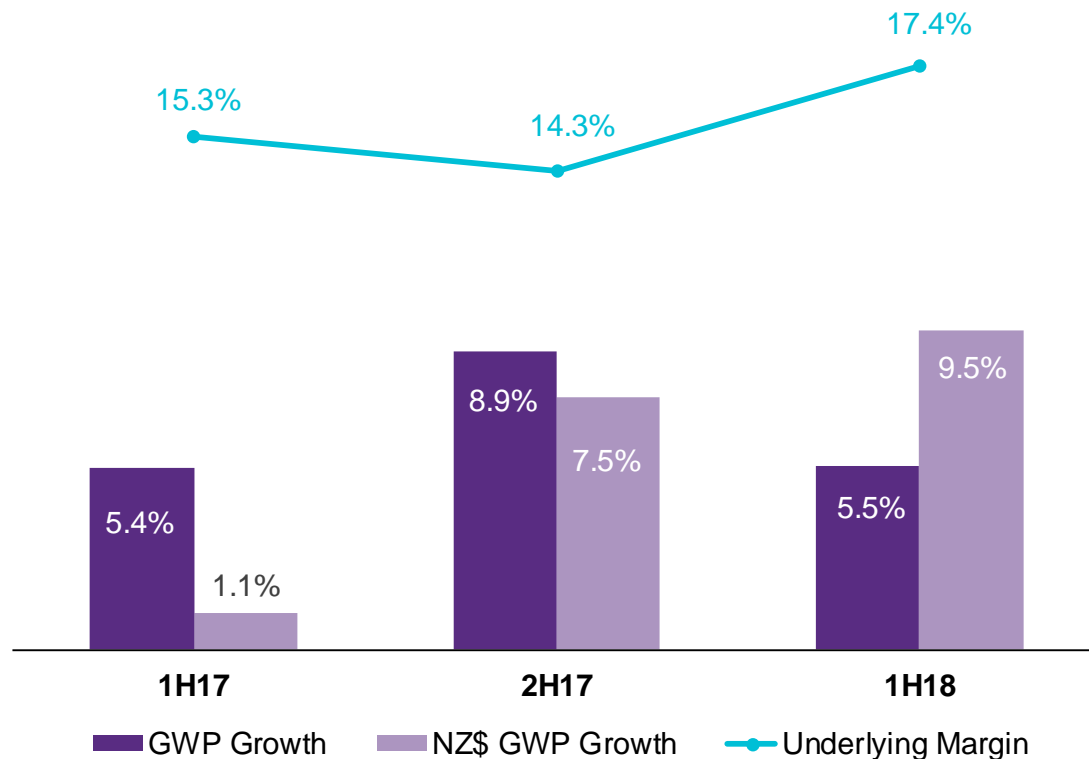
- Higher than expected reserve releases (5.3% of NEP)
- Perils outcome \$57m below allowance (1.7% of NEP)
- Higher credit spread benefit



# New Zealand

## Strong GWP growth and underlying margin

### NEW ZEALAND - GWP GROWTH / UNDERLYING MARGIN



### Strong local currency GWP growth of 9.5%

- Personal lines momentum from mix of rate and volume maintained, led by motor
- Strong rate increases in commercial lines with some offset from lower new business volumes
- Reported GWP growth of 5.5% – adverse FX effect

### Strong underlying margin performance continues

- Earn through of prior period rate increases
- Good progress on claim remediation activities

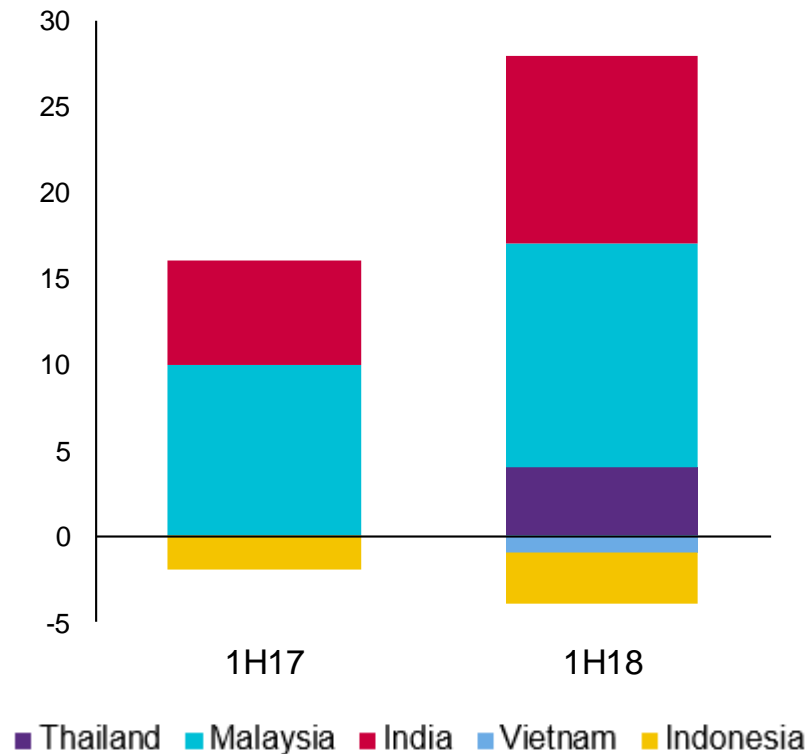
### Prior period reserve strengthening

- \$53m from professional risks and past storm event development – reduces reported margin to 14.2%
- FY11 earthquake gross reserving increased
  - No P&L effect
  - Uses ~10% of NZ\$600m ADC for February 2011 event

# Asia

## Strategic review announced

### EARNINGS CONTRIBUTION BY COUNTRY\* (\$m)



\*Before regional support and development costs

### Higher earnings contribution of \$15m (1H17: \$2m)

- Return to profit in Thailand – absence of large commercial losses
- Improved Malaysian result driven by tighter pricing and underwriting actions, plus higher prior period reserve releases
- Improved profits in India owing to better risk selection and one-off reinsurance effect
- Lower regional support and development costs

### Proportional GWP growth of 5.2% to \$387m

- Strong recovery in Thai motor, offset by lower commercial volumes
- Contraction in Malaysia – intense price competition post-liberalisation
- Strong growth in India of over 40%

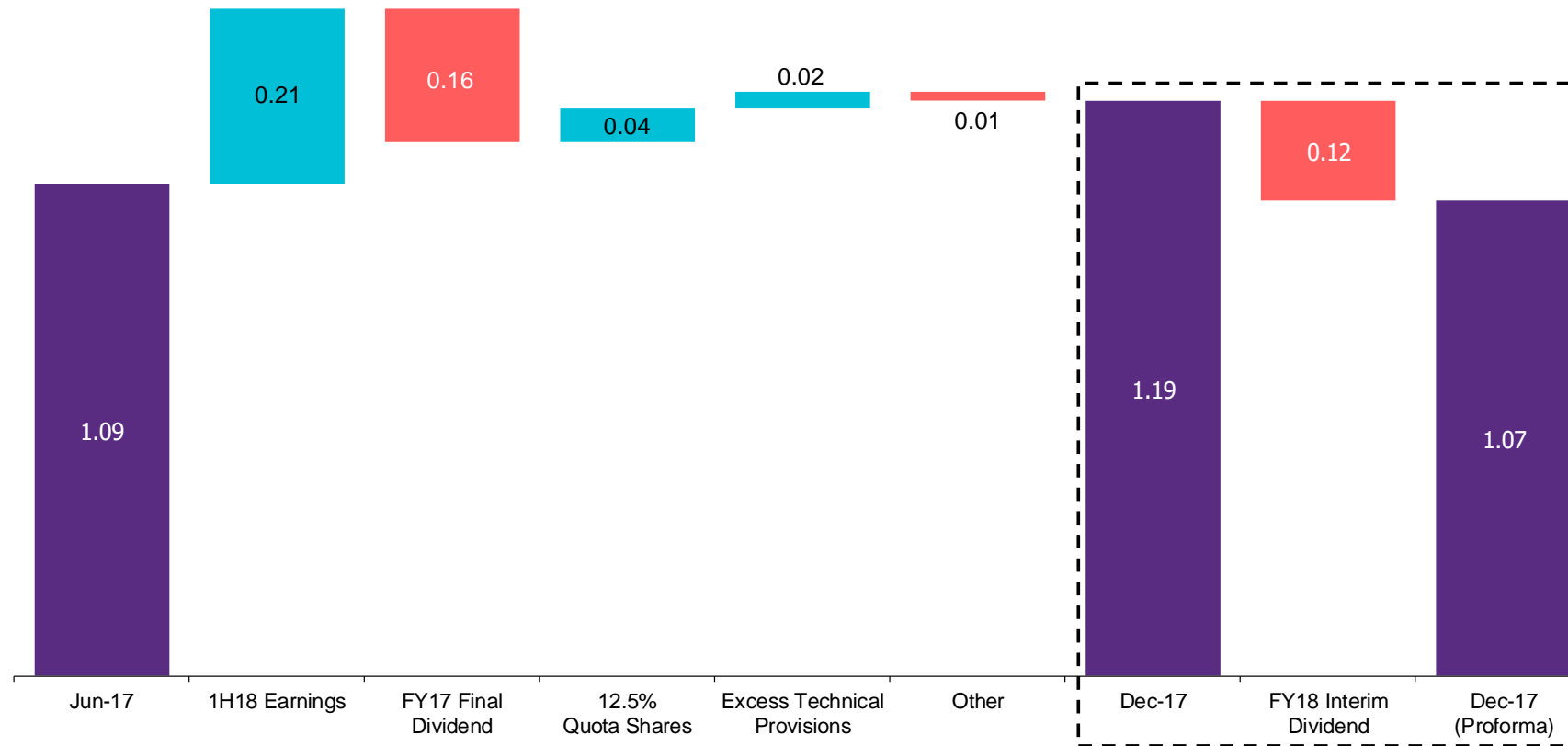
### Strategic review to be completed by end of calendar 2018

- Examining all options available
- Separate \$50m writedown of collective carrying values – countered by favourable earnings and FX effects

# Capital

## Strong capital position

### CET1 MOVEMENT SINCE 30 JUNE 2017



**CET1 of 1.19 – above benchmark range (0.9-1.1)**

**PCA of 1.81 – above benchmark range (1.4-1.6)**

**Proforma CET1 ratio at upper end of benchmark range post interim dividend**

# FY18 Reported Margin Guidance

Raised to 15.5-17.5%

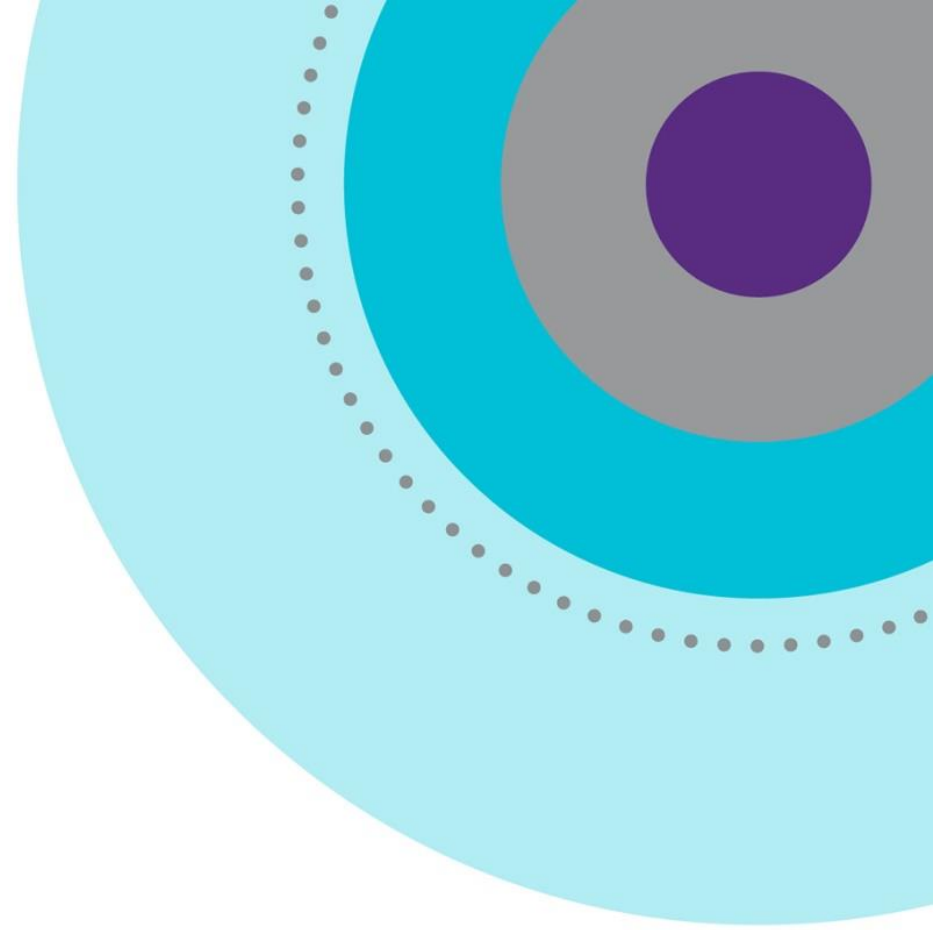
	Margin impacts	
Initial FY18 reported margin guidance		12.5-14.5%
12.5% quota shares from 1 January 2018 (full year 250bps impact)	+125bps	13.75-15.75%
Increased reserve release assumption of around 3% (originally 'at least 2%')	~100bps	▲
1H18 credit spread outcome	~60bps	▲
Updated FY18 reported margin guidance		15.5-17.5%



# Outlook

**Peter Harmer**

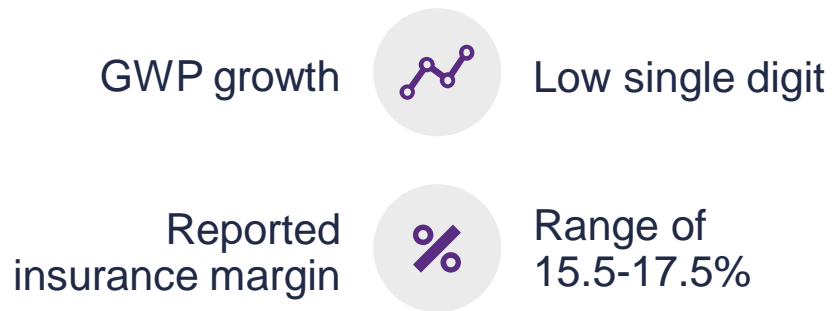
Managing Director and Chief Executive Officer



# FY18 outlook

Further underlying improvement expected in 2H18

## FY18 guidance



## Underlying assumptions

1

Net losses from natural perils of \$627m, in line with allowance

2

Reserve releases of around 3%

3

No material movement in foreign exchange rates or investment markets in 2H18

- GWP growth guidance of 'low single digit'
  - Ongoing rate increases expected in short tail personal lines
  - Further positive rate momentum in commercial classes
  - Lower NSW CTP pricing, post-reform
  - Up to \$60m GWP reduction from ceased Swann activities
  - Neutral ESL effect – reversal of 1H18 reduction in 2H18
- Reported insurance margin guidance of 15.5-17.5%
  - Improved underlying performance on FY17
  - Reserve release expectation of 'around 3%' assumes continuation of presently particularly benign inflationary environment
  - Assumed retained benefit from 1H18 credit spread effect
  - A relatively neutral impact from optimisation program activities
  - Initial 12.5% quota share impact of ~125bps (250bps annualised)

# Our value proposition

Delivering strong shareholder returns



## Investment case

- Leading player with scale advantage in Australia and New Zealand (low single digit growth)
- Digitally-enabled insurer that is customer-led and data-driven
- Innovation in capital management
- Improved efficiencies

Value drivers



Customer



Simplification



Agility



## Shareholder value

### Through-the-cycle targets

- Cash ROE 1.5x WACC
- High dividend (60-80% of cash earnings payout)
- Top quartile TSR
- ~10% compound EPS growth



For ownership details, see [www.iag.com.au](http://www.iag.com.au)

**We make your world a safer place**



# Appendix – Group Results

	1H17 A\$m	2H17 A\$m	1H18 A\$m
<b>GROUP RESULTS</b>			
<b>Gross written premium</b>	<b>5,802</b>	<b>6,003</b>	<b>5,834</b>
Gross earned premium	5,868	5,824	5,966
Reinsurance expense	(1,624)	(1,603)	(1,663)
<b>Net earned premium</b>	<b>4,244</b>	<b>4,221</b>	<b>4,303</b>
Net claims expense	(2,625)	(2,638)	(2,591)
Commission expense	(416)	(422)	(421)
Underwriting expense	(669)	(678)	(675)
<b>Underwriting profit</b>	<b>534</b>	<b>483</b>	<b>616</b>
Investment income on technical reserves	37	204	127
<b>Insurance profit</b>	<b>571</b>	<b>687</b>	<b>743</b>
Net corporate expense	(4)	(4)	-
Interest	(51)	(42)	(39)
Profit/(loss) from fee based business	(1)	(33)	-
Share of profit from associates	9	12	19
Investment income on shareholders' funds	105	144	138
<b>Profit before income tax and amortisation</b>	<b>629</b>	<b>764</b>	<b>861</b>
Income tax expense	(109)	(220)	(213)
<b>Profit after income tax (before amortisation)</b>	<b>520</b>	<b>544</b>	<b>648</b>
Non-controlling interests	(45)	(31)	(18)
<b>Profit after income tax and non-controlling interests (before amortisation)</b>	<b>475</b>	<b>513</b>	<b>630</b>
Amortisation and impairment	(29)	(30)	(79)
<b>Profit attributable to IAG shareholders</b>	<b>446</b>	<b>483</b>	<b>551</b>

# Appendix – Group Ratios and Key Metrics

<b>Insurance Ratios</b>	<b>1H17</b>	<b>2H17</b>	<b>1H18</b>
Loss ratio	61.9%	62.5%	60.2%
Immunised loss ratio	63.9%	61.6%	60.9%
Expense ratio	25.6%	26.1%	25.5%
Commission ratio	9.8%	10.0%	9.8%
Administration ratio	15.8%	16.1%	15.7%
Combined ratio	87.5%	88.6%	85.7%
Immunised combined ratio	89.5%	87.7%	86.4%
<b>Reported insurance margin</b>	<b>13.5%</b>	<b>16.3%</b>	<b>17.3%</b>
<b>Underlying insurance margin</b>	<b>12.6%</b>	<b>11.2%</b>	<b>12.6%</b>
<b>Key Financial Metrics (Total Operations)</b>	<b>1H17</b>	<b>2H17</b>	<b>1H18</b>
Reported ROE (average equity) (% pa)	13.7%	14.9%	16.8%
<b>Cash ROE (average equity) (% pa)</b>	<b>14.8%</b>	<b>15.8%</b>	<b>19.1%</b>
Basic EPS (cents)	18.61	20.45	23.32
Diluted EPS (cents)	17.92	19.70	22.60
<b>Cash EPS (cents)</b>	<b>19.98</b>	<b>21.64</b>	<b>26.66</b>
<b>DPS (cents)</b>	<b>13.00</b>	<b>20.00</b>	<b>14.00</b>
Probability of adequacy	90%	90%	90%
NTA backing per ordinary share (\$)	1.28	1.36	1.41
<b>CET1 multiple</b>	<b>1.09</b>	<b>1.09</b>	<b>1.19</b>

# Appendix – Divisional Performance

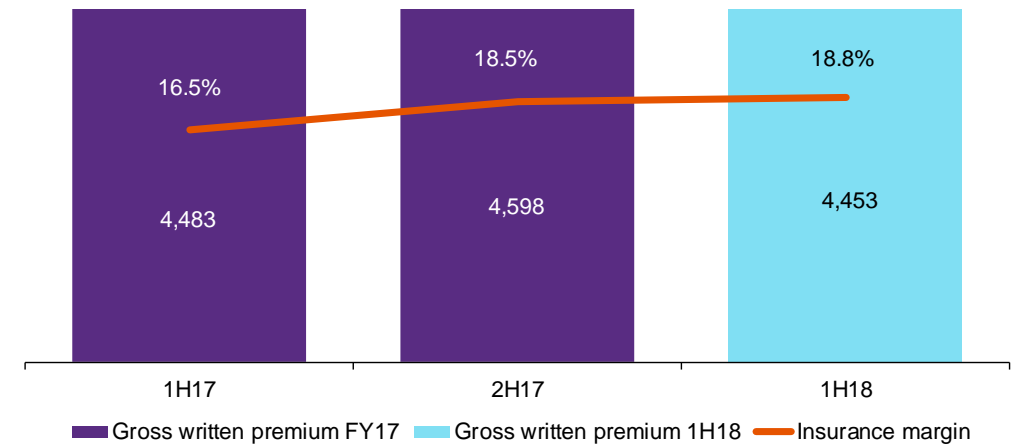
DIVISION	1H17				1H18			
	GWP		INSURANCE MARGIN		GWP		INSURANCE MARGIN	
	Reported	Growth	Reported	Underlying	Reported	Growth	Reported	Underlying
	A\$m	%	%	%	A\$m	%	%	%
Australia	4,483	5.1	16.5	12.2	4,453	(0.7)	18.8	11.4
<i>Consumer</i>	3,060	7.4	21.5	14.1	3,052	(0.3)	23.0	13.9
<i>Business</i>	1,423	0.3	7.1	8.8	1,401	(1.5)	10.4	6.5
New Zealand	1,128	5.4	4.3	15.3	1,190	5.5	14.2	17.4
Asia	182	(7.6)	nm	nm	185	1.6	nm	nm
Corporate & Other	9	nm	nm	nm	6	nm	nm	nm
<b>Total Group</b>	<b>5,802</b>	<b>4.7</b>	<b>13.5</b>	<b>12.6</b>	<b>5,834</b>	<b>0.6</b>	<b>17.3</b>	<b>12.6</b>

# Appendix – Australia

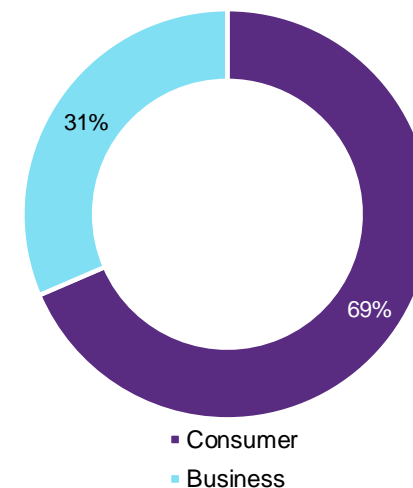
	1H17	2H17	1H18
	A\$m	A\$m	A\$m
<b>AUSTRALIA RESULTS</b>			
<b>Gross written premium</b>	<b>4,483</b>	<b>4,598</b>	<b>4,453</b>
Gross earned premium	4,530	4,487	4,612
Reinsurance expense	(1,254)	(1,225)	(1,285)
<b>Net earned premium</b>	<b>3,276</b>	<b>3,262</b>	<b>3,327</b>
Net claims expense	(1,936)	(1,998)	(1,995)
Commission expense	(287)	(295)	(291)
Underwriting expense	(530)	(535)	(536)
<b>Underwriting profit</b>	<b>523</b>	<b>434</b>	<b>505</b>
Investment income on technical reserves	19	169	120
<b>Insurance profit</b>	<b>542</b>	<b>603</b>	<b>625</b>
Profit/(loss) from fee based business	2	(30)	5
Share of profit/(loss) from associates	-	(1)	2
<b>Total divisional result</b>	<b>544</b>	<b>572</b>	<b>632</b>
<b>Insurance Ratios</b>			
	<b>1H17</b>	<b>2H17</b>	<b>1H18</b>
Loss ratio	59.1%	61.3%	60.0%
Immunised loss ratio	61.8%	60.0%	60.5%
Expense ratio	25.0%	25.4%	24.8%
Commission ratio	8.8%	9.0%	8.7%
Administration ratio	16.2%	16.4%	16.1%
Combined ratio	84.1%	86.7%	84.8%
Immunised combined ratio	86.8%	85.4%	85.3%
Insurance margin	16.5%	18.5%	18.8%
Underlying insurance margin	12.2%	10.8%	11.4%



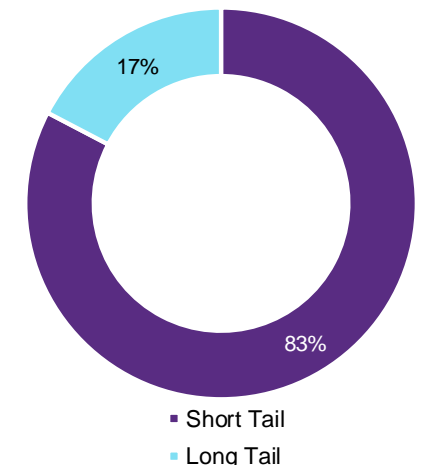
**GWP (\$M) / INSURANCE MARGIN (%)**



**1H18 GWP BY SEGMENT**



**1H18 GWP BY TAIL**



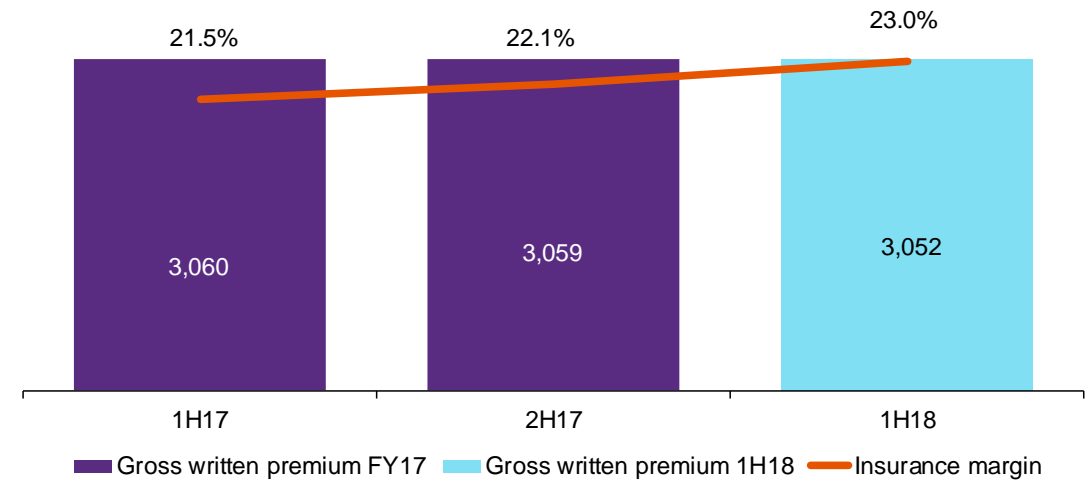


# Appendix – Australia Consumer

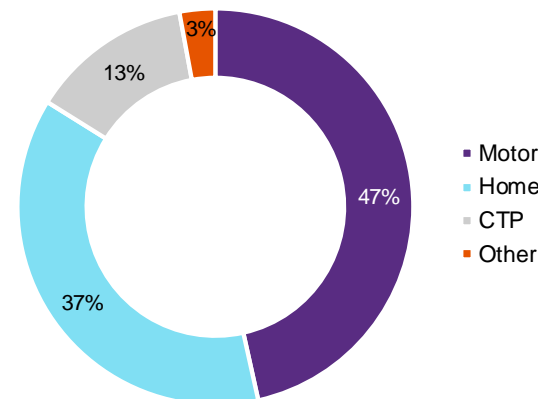
<b>AUSTRALIA CONSUMER RESULTS</b>	<b>1H17</b>	<b>2H17</b>	<b>1H18</b>
	<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>
<b>Gross written premium</b>	<b>3,060</b>	<b>3,059</b>	<b>3,052</b>
Gross earned premium	2,980	3,021	3,092
Reinsurance expense	(837)	(849)	(878)
<b>Net earned premium</b>	<b>2,143</b>	<b>2,172</b>	<b>2,214</b>
Net claims expense	(1,269)	(1,371)	(1,345)
Commission expense	(114)	(127)	(122)
Underwriting expense	(313)	(305)	(315)
<b>Underwriting profit</b>	<b>447</b>	<b>369</b>	<b>432</b>
Investment income on technical reserves	14	111	77
<b>Insurance profit</b>	<b>461</b>	<b>480</b>	<b>509</b>

<b>Insurance Ratios</b>	<b>1H17</b>	<b>2H17</b>	<b>1H18</b>
Loss ratio	59.2%	63.1%	60.7%
Immunised loss ratio	61.8%	61.9%	61.2%
Expense ratio	19.9%	19.8%	19.7%
Commission ratio	5.3%	5.8%	5.5%
Administration ratio	14.6%	14.0%	14.2%
Combined ratio	79.1%	82.9%	80.4%
Immunised combined ratio	81.7%	81.7%	80.9%
Reported insurance margin	21.5%	22.1%	23.0%
Underlying insurance margin	14.1%	13.7%	13.9%

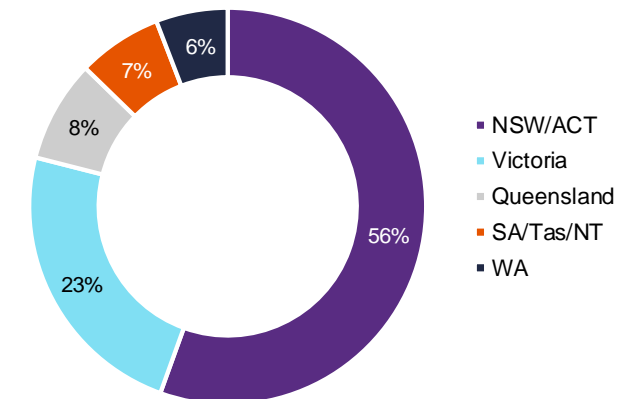
**GWP (\$M) / INSURANCE MARGIN (%)**



**1H18 GWP BY CLASS**



**1H18 GWP BY STATE**

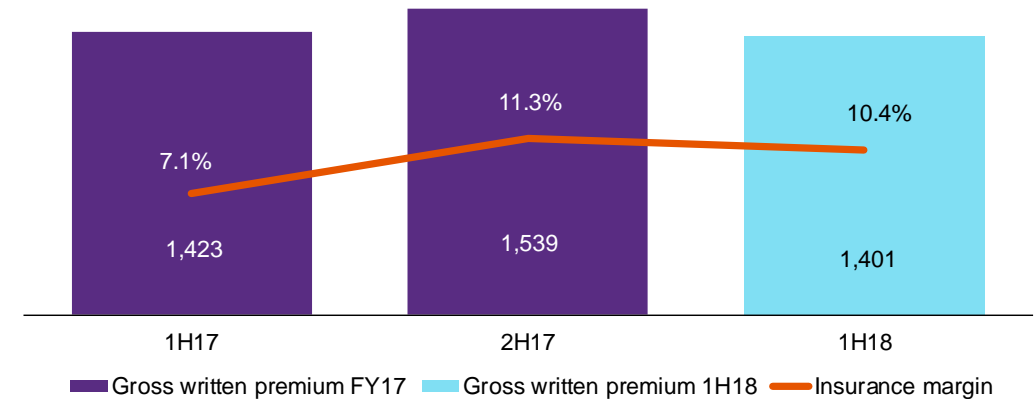


# Appendix – Australia Business

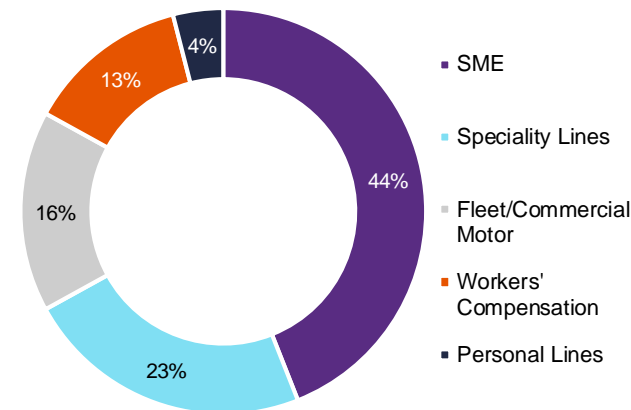
AUSTRALIA BUSINESS RESULTS	1H17 A\$m	2H17 A\$m	1H18 A\$m
<b>Gross written premium</b>	<b>1,423</b>	<b>1,539</b>	<b>1,401</b>
Gross earned premium	1,550	1,466	1,520
Reinsurance expense	(417)	(376)	(407)
<b>Net earned premium</b>	<b>1,133</b>	<b>1,090</b>	<b>1,113</b>
Net claims expense	(667)	(627)	(650)
Commission expense	(173)	(168)	(169)
Underwriting expense	(217)	(230)	(221)
<b>Underwriting profit</b>	<b>76</b>	<b>65</b>	<b>73</b>
Investment income on technical reserves	5	58	43
<b>Insurance profit</b>	<b>81</b>	<b>123</b>	<b>116</b>
Profit/(loss) from fee based business	2	(30)	5
Share of profit/(loss) from associates	-	(1)	2
<b>Total divisional result</b>	<b>83</b>	<b>92</b>	<b>123</b>

Insurance Ratios	1H17	2H17	1H18
Loss ratio	58.9%	57.5%	58.4%
Immunised loss ratio	61.7%	56.3%	59.0%
Expense ratio	34.5%	36.5%	35.1%
Commission ratio	15.3%	15.4%	15.2%
Administration ratio	19.2%	21.1%	19.9%
Combined ratio	93.4%	94.0%	93.5%
Immunised combined ratio	96.2%	92.8%	94.1%
Reported insurance margin	7.1%	11.3%	10.4%
Underlying insurance margin	8.8%	4.9%	6.5%

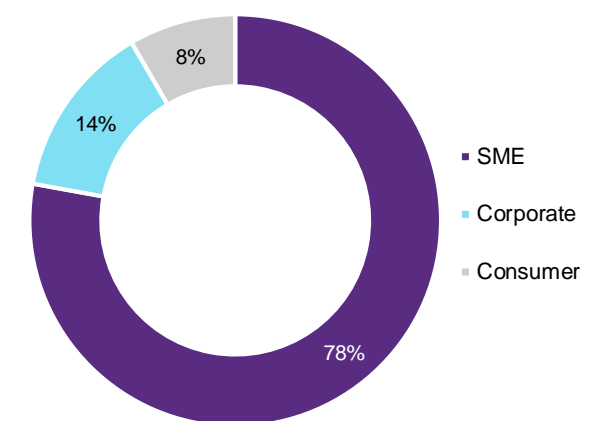
GWP (\$M) / INSURANCE MARGIN (%)



1H18 GWP BY CLASS



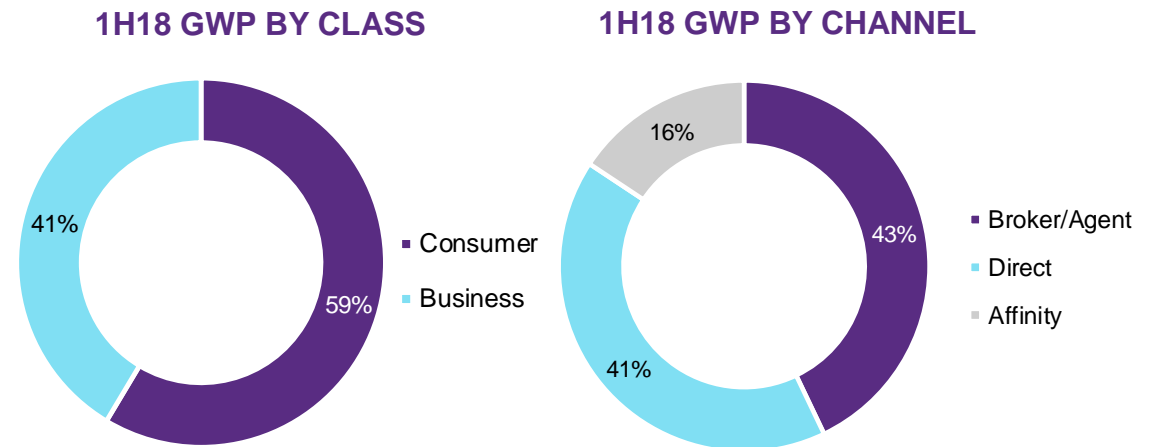
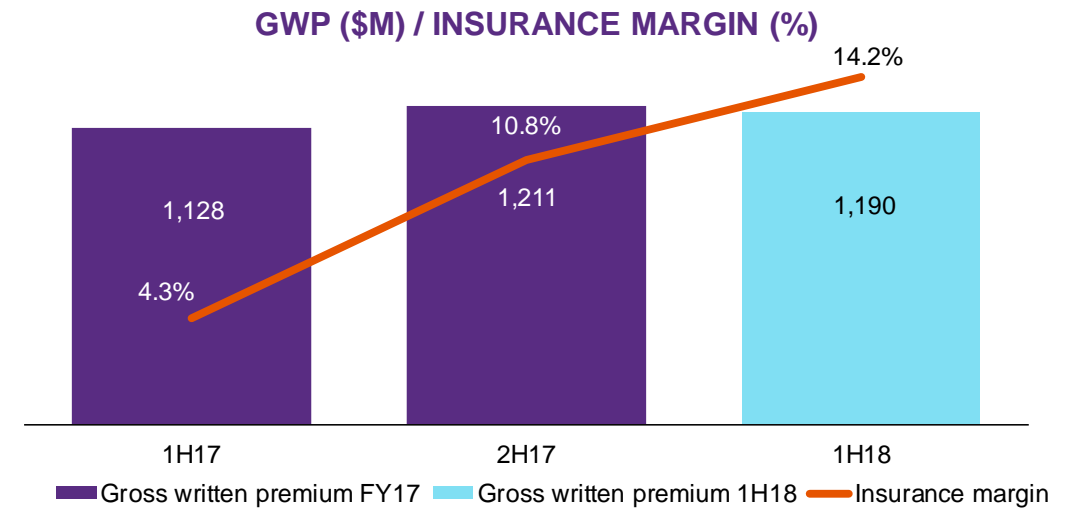
1H18 GWP BY SEGMENT



# Appendix – New Zealand

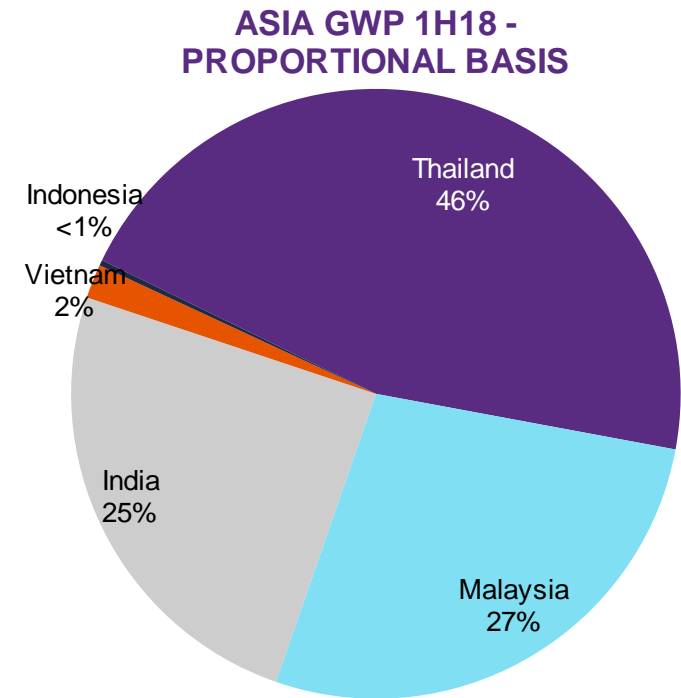
	1H17 A\$m	2H17 A\$m	1H18 A\$m
<b>NEW ZEALAND</b>			
<b>Gross written premium</b>	<b>1,128</b>	<b>1,211</b>	<b>1,190</b>
Gross earned premium	1,143	1,144	1,160
Reinsurance expense	(311)	(321)	(323)
<b>Net earned premium</b>	<b>832</b>	<b>823</b>	<b>837</b>
Net claims expense	(598)	(548)	(507)
Commission expense	(95)	(94)	(95)
Underwriting expense	(116)	(124)	(117)
<b>Underwriting profit</b>	<b>23</b>	<b>57</b>	<b>118</b>
Investment income on technical reserves	13	32	1
<b>Insurance profit</b>	<b>36</b>	<b>89</b>	<b>119</b>

<b>Insurance Ratios</b>	1H17	2H17	1H18
Loss ratio	71.9%	66.6%	60.6%
Immunised loss ratio	72.0%	66.8%	62.4%
Expense ratio	25.3%	26.5%	25.4%
Commission ratio	11.4%	11.4%	11.4%
Administration ratio	13.9%	15.1%	14.0%
Combined ratio	97.2%	93.1%	86.0%
Immunised combined ratio	97.3%	93.3%	87.8%
Insurance margin	4.3%	10.8%	14.2%
Underlying insurance margin	15.3%	14.3%	17.4%



# Appendix – Asia Division

ASIA	1H17 A\$m	2H17 A\$m	1H18 A\$m
<b>Gross written premium</b>	<b>182</b>	<b>184</b>	<b>185</b>
Gross earned premium	186	185	186
Reinsurance expense	(53)	(52)	(50)
<b>Net earned premium</b>	<b>133</b>	<b>133</b>	<b>136</b>
Net claims expense	(89)	(92)	(86)
Commission expense	(33)	(31)	(34)
Underwriting expense	(23)	(19)	(22)
<b>Underwriting (loss)</b>	<b>(12)</b>	<b>(9)</b>	<b>(6)</b>
Investment income on technical reserves	5	4	4
<b>Insurance (loss)</b>	<b>(7)</b>	<b>(5)</b>	<b>(2)</b>
Share of profit from associates	9	13	17
<b>Total divisional result</b>	<b>2</b>	<b>8</b>	<b>15</b>



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