

# IAG ANNOUNCES 1H18 RESULTS

14 February 2018



## FINANCIAL INDICATORS

“This is an encouraging result for IAG. It reflects solid like-for-like gross written premium (GWP) growth of nearly 4%, primarily achieved through rate increases in commercial and consumer, along with some volume growth in motor. At a reported level, our comprehensive reinsurance protection in the half saw net natural peril claim costs below allowance while a higher favourable credit spread impact and larger than anticipated reserve releases also helped boost our reported margin.

“We have raised our full year reported margin guidance to 15.5 – 17.5% based on a positive revision to expected reserve releases and credit spreads and we have reaffirmed our low single digit GWP growth expectation.

“Operationally, our optimisation program continues to track to plan and we have announced a strategic review of the options for our Asian businesses which we expect to be complete by the end of the calendar year.

“We started to see a favourable impact over the half of a number of initiatives we have put in place. This included programs of work around combating claims inflation through our car hire initiatives and

	1H17	1H18	CHANGE	
GWP (\$m)	5,802	5,834	0.6%	↑
Insurance profit (\$m)	571	743	30.1%	↑
Underlying margin <sup>1</sup> (%)	12.6	12.6	Flat	↔
Reported margin (%)	13.5	17.3	380bps	↑
Net profit after tax (\$m)	446	551	23.5%	↑
Cash EPS (CPS)	19.98	26.66	33.4%	↑
Ordinary dividend (CPS)	13.0	14.0	7.7%	↑
Cash ROE (%)	14.8	19.1	430bps	↑

customer choice campaign, accelerating our partnering with global experts to simplify processes and reduce complexity, and the bedding down of the Australia Division, created in July last year.”

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

## INSURANCE MARGIN

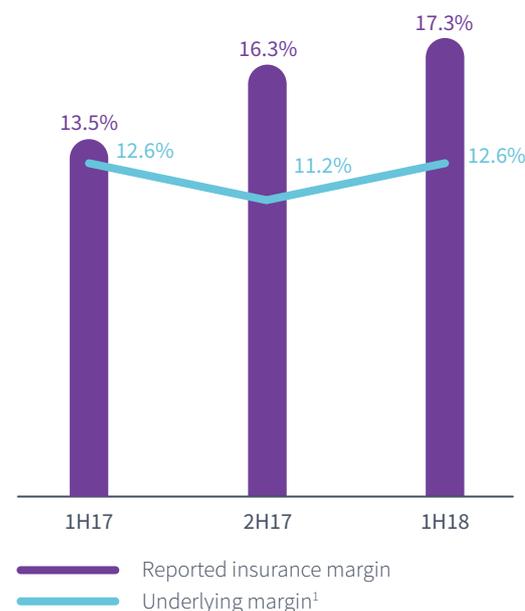
### IMPROVED UNDERLYING MARGIN<sup>1</sup> OF 12.6% (OVER 2H17)

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

### HIGHER REPORTED MARGIN OF 17.3% (1H17: 13.5%)

- Net natural peril claim costs \$78 million lower than allowance at \$262 million (1H17:\$420 million), following \$120 million of protection from aggregate reinsurance cover
- Larger favourable credit spread impact of \$47 million, compared to \$5 million in 1H17
- Higher than originally expected prior period reserve releases of \$121 million, equivalent to 2.8% of NEP, down from \$155 million in 1H17

### MARGIN TRENDS – 1H17-1H18



<sup>1</sup> 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.

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## GWP GROWTH

### UNDERLYING GROWTH OF AROUND 4%

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

### REPORTED GROWTH OF 0.6%

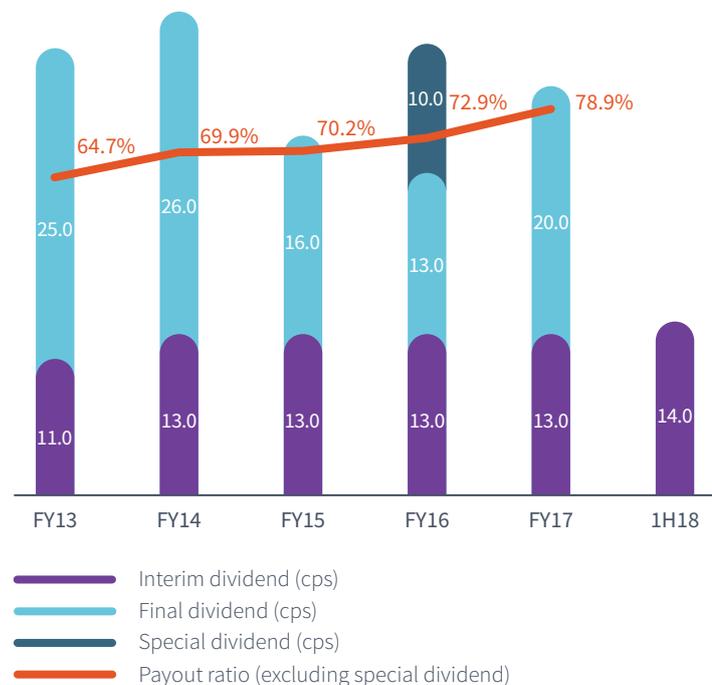
- Outcome in line with expectations
- Several one-off adverse effects absorbed in 1H18:
  - NSW CTP reform-related refunds and lower pricing – nearly \$80 million
  - \$23 million from discontinued Swann areas
  - Reintroduction of ESL in NSW – ~\$50 million effect to reverse in 2H18
  - Adverse FX movement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

### GWP GROWTH



## RETURN TO SHAREHOLDERS

### DIVIDEND HISTORY – FY13-1H18



### DIVIDEND AND CAPITAL POSITION

The Board has determined to pay an interim fully franked dividend of 14 cents per ordinary share (1H17: 13 cps) on 29 March 2018, representing a cash payout ratio of 52.5% and a dividend increase of 7.7%.

IAG's capital position remained strong with a Common Equity Tier 1 (CET1) ratio of 1.19 against the target benchmark of 0.9-1.1. This included an initial balance date benefit of four basis points from the combined 12.5% quota shares announced in December 2017.

After allowance for the interim dividend, the CET1 multiple would be at the upper end of IAG's benchmark range.

**“We are in a strong capital position, bolstered by the initial effect of the combined 12.5% quota share agreements announced in December 2017 which will drive lower earnings volatility and reduced catastrophe reinsurance and regulatory capital needs.”**

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

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## OPERATIONAL PERFORMANCE

### AUSTRALIA

Positive underlying growth and margin trends

#### REPORTED AND UNDERLYING MARGIN



#### SOUND UNDERLYING MARGIN OF 11.4%

- Reduced pressure on motor profitability
- NSW scheme reform has resulted in improved CTP profitability since 1H17
- Commercial property large losses at more normal levels

#### REPORTED MARGIN OF 18.8%

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

#### 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 effects
- Average rate increases of ~5% in commercial classes
- 14% reduction in CTP – NSW reform influences
- Relatively flat volumes – growth in motor and CTP, lower retention and new business in commercial

### NEW ZEALAND

Strong GWP growth and underlying margin

#### STRONG 9.5% LOCAL CURRENCY GWP GROWTH

- Ongoing growth in personal lines from mix of rate and volume, 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

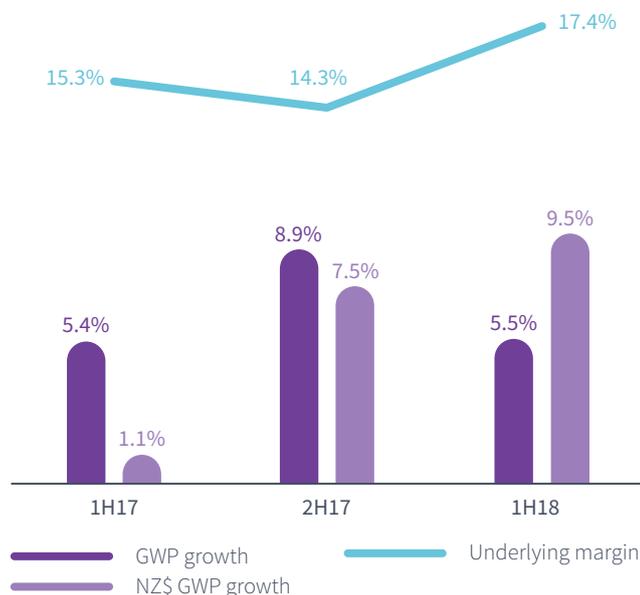
#### STRONG UNDERLYING MARGIN OF 17.4%

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

#### HIGHER REPORTED MARGIN OF 14.2%

- Favourable natural perils outcome
- Some effect from reserve strengthening from professional indemnity risks and adverse storm development

#### GWP GROWTH / UNDERLYING MARGIN



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## ASIA

### Strategic review announced

#### 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

As part of its Asia strategy, IAG has focused on growth via market consolidation and increased ownership. IAG's current assessment is that such opportunities are limited, resulting in its decision to conduct a strategic review of the options available for its Asian businesses. This review is expected to be concluded by the end of calendar 2018.

**“We have always taken a measured approach to Asia and we believe this is the right time to review the immediate and longer term strategic options for our individual Asian businesses given the limited expansion opportunities.”**

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

IAG's 1H18 results include a writedown of \$50 million, included in the amortisation and impairment expense line, following a review of carrying values applicable to the respective Asian businesses.

## STRATEGIC UPDATE

### 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 Application Program Interface strategy and governance to support ecosystem development and partnering opportunities



#### Simplification

- Progressed claims 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

**“We continue to focus on our three strategic priorities of customer, simplification and agility. We will achieve these priorities by delivering world-leading customer experiences, creating a simplified operating model and building a more agile organisation distinguished by innovation, speed and sharp execution.”**

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

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## OUTLOOK

GWP growth expectation reaffirmed, reported margin guidance raised for reserve release and credit spread factors

### FY18 GUIDANCE



**GWP growth**  
Low single digit



**Reported insurance margin**  
Range of 15.5-17.5%

### UNDERLYING ASSUMPTIONS

**1**

**Net losses from natural perils of \$627 million 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'	REPORTED INSURANCE MARGIN GUIDANCE OF 15.5-17.5%
Ongoing rate increases expected in short tail personal lines	Improved underlying performance on FY17
Further positive rate momentum in commercial classes	Reserve release expectation of around 3% assumes continuation of presently particularly benign inflationary environment
Lower NSW CTP pricing, post-reform	Assumed retained benefit from 1H18 credit spread effect
Up to \$60 million GWP reduction from ceased Swann activities	A relatively neutral impact from optimisation program activities
Neutral ESL effect – reversal of 1H18 reduction in 2H18	Initial 12.5% quota share impact of ~ 125bps (250bps annualised)

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## IAG FINANCIAL PERFORMANCE

	1H17 A\$m	2H17 A\$m	1H18 A\$m	1H18 vs 1H17 Mvt
<b>GROUP RESULTS</b>				
<b>Gross written premium</b>	<b>5,802</b>	<b>6,003</b>	<b>5,834</b>	<b>+0.6%</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>	<b>+1.4%</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>	<b>+15.4%</b>
Investment income on technical reserves	37	204	127	
<b>Insurance profit</b>	<b>571</b>	<b>687</b>	<b>743</b>	<b>+30.1%</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>	<b>+36.9%</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>	<b>+32.6%</b>
Amortisation and impairment	(29)	(30)	(79)	
<b>Profit attributable to IAG shareholders</b>	<b>446</b>	<b>483</b>	<b>551</b>	<b>+23.5%</b>

	1H17 A\$m	%	1H18 A\$m	%
<b>INSURANCE MARGIN</b>				
Management reported insurance margin	571	13.5	743	17.3
Net natural peril claim costs less allowance	80	1.9	(78)	(1.8)
Reserve releases in excess of 1% of NEP	(113)	(2.7)	(78)	(1.8)
Credit spread movements	(5)	(0.1)	(47)	(1.1)
Underlying insurance margin	533	12.6	540	12.6