



IAG announces FY19 results

8 August 2019

Financial indicators

	FY18	FY19	Change	
GWP (\$m)	11,647	12,005	3.1%	↑
Insurance Profit (\$m)	1,407	1,224	13.0%	↓
Underlying Margin (%)	14.1%	16.6%	250bps	↑
Reported Margin (%)	18.3%	16.9%	140bps	↓
Net Profit After Tax (\$m)	923	1,076	16.6%	↑
Shareholders' Funds Income (\$m)	165	227	37.6%	↑
Cash Earnings (\$m)	1,034	931	10.0%	↓
Dividend (cps)	34.0	32.0	5.9%	↓
Cash ROE (%)	15.6%	14.4%	120bps	↓
CET1 Multiple	1.26	1.31	5bps	↑

Financial performance

We have had a successful year which reflects the work we have done to better connect with our customers.

We've improved our underlying performance as we realise the benefits of our simplification program, build on our customer focus and identify future growth opportunities.

Our Australia business performed well, with strong results in personal insurance and an improvement in commercial insurance. New Zealand maintained its strong profitability and sound growth, reinforcing its position as the country's leading general insurer.

Gross written premium across the group grew by 3.1%, mainly from higher rates, and included a favourable foreign exchange effect against the New Zealand currency. Like-for-like premium growth was close to 4%.

Our underlying insurance margin continued to improve, increasing to 16.6%. At the reported margin level, our improved underlying performance was outweighed by higher costs from natural disasters and significantly lower prior period reserve releases.

Net profit after tax of \$1,076 million was more than 16% higher than in the prior year and included an over \$200 million profit on the sale of our Thailand operations, completed in August 2018.

Adapting to customer needs

We've continued to adapt our business to meet the changing needs of our customers while also developing products that fall outside traditional general insurance to better cater to those needs.

Through our Firemark Ventures fund, we've invested approximately \$19 million of the original \$75 million we allocated, across eight companies. We've now developed products with two of these companies – Airtasker and UpGuard.

We've expanded our ShareCover host property rental insurance product to include other shared economy offerings like Rideshare, Boatshare and TaskCover.

Between ShareCover and Insurance4That – our single item insurance product – we have seen solid customer growth.

In June we acquired a 51% stake in Carbar, a digital car trading platform that caters to the growing appetite for alternative forms of vehicle ownership and gives us an opportunity to design complementary forms of insurance.

We co-founded the Gradient Institute in December 2018 with two of Australia's strongest science and academic leaders – Data61 and the University of Sydney – to help address the challenges and opportunities that artificial intelligence presents.

We've enhanced our motor repair model, in conjunction with the Royal Automobile Club of Victoria (RACV), to get customers back on

the road quickly. This model also involves two repair partners and initially covers six sites in metropolitan centres.

We've consolidated our claims platforms onto Guidewire's ClaimCenter, which makes it easier for our people to process claims and means we can quickly divert employees from one part of our business to another to help our customers get back on their feet more quickly – especially after a major natural disaster.

Focused on risk

Over the last year we have significantly increased our focus on risk, strengthening our business so we can continue to deliver the best outcomes for our customers – and all those who depend on us.

We are using data to gain insightful risk perspectives and support rapid decision-making, and we are strengthening our enterprise-wide capabilities to better manage current and emerging risks.

Peter Harmer
IAG Managing Director and
Chief Executive Officer



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GWP growth

Mid-point of guidance range

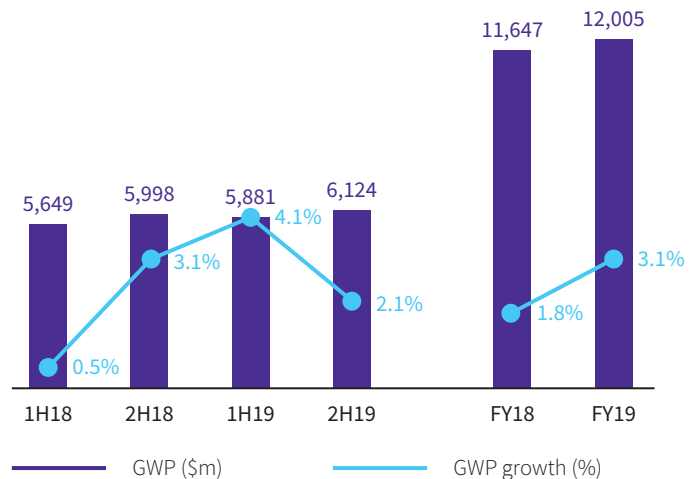
GWP growth of 3.1%

- Short tail personal line rate increases broadly matching claims inflation
- Relatively flat short tail personal lines volumes, with areas of growth
 - RACV in Australia
 - AMI motor in New Zealand
- Lower NSW CTP rates partially offset by higher volumes
- Continued commercial rate growth
 - ~6% average in Australia
 - Reduced New Zealand momentum
- Lower commercial volumes
- ~\$70m reduction from business exits
- Slight benefit from strengthening NZ\$
- Like-for-like growth close to 4%

FY20 guidance of 'low single digit' GWP growth

- Sound growth expected from short tail personal lines
 - Rate increases
 - Modest volume improvement
- Lower CTP GWP – scheme change effects in NSW, ACT and SA
- Further commercial rate increases, reduced pace in New Zealand
- Lower commercial volumes principally from recent business exits
 - Australian underwriting agency-related GWP over \$100m lower

GWP – FY18-FY19



Insurance margin

Reported margin in line with guidance, embracing sound underlying improvement

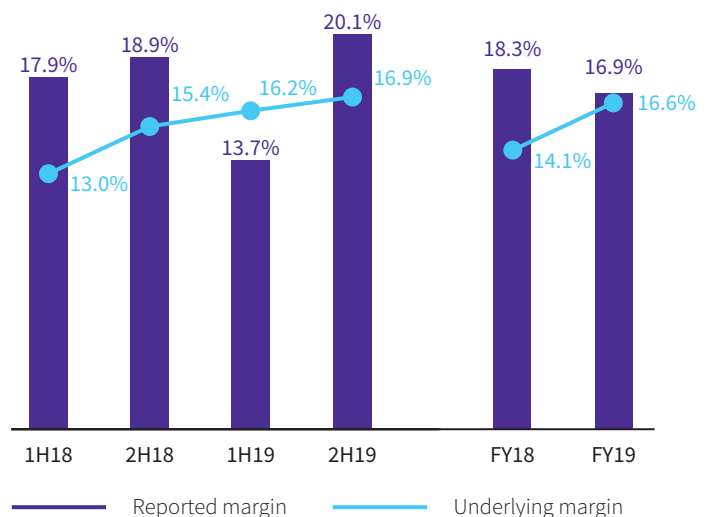
Higher underlying margin¹ of 16.6%

- Full year increase of ~250bps
- ~125bps uplift from full year of 12.5% quota shares
- Remaining underlying improvement of ~125bps contains:
 - Optimisation program benefits of ~\$90m
 - Some offset from increased regulatory costs (~\$20m)
 - Improved commercial lines profitability, helped by more normal large loss experience
 - Lower CTP profitability owing to full year of NSW capped scheme

Reported margin of 16.9%

- At mid-point of 16-18% guidance range
 - Prior period reserve releases of 1.7% of NEP
 - Small net perils overrun against allowance
 - Negative \$20m swing from credit spreads

Margin trends – FY18-FY19



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 net earned premium (NEP); and
- Credit spread movements.



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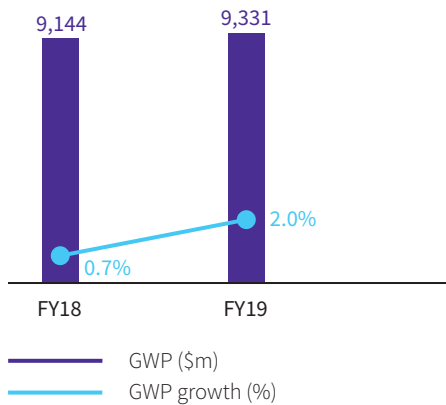
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Operational performance

Australia

Strong Consumer result, encouraging progress in Business

Australia GWP



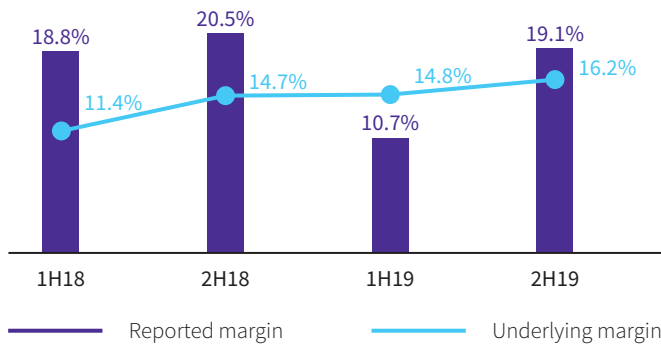
GWP growth of 2.0%

- Rate increases of 4-5% in short tail personal lines
- Modestly lower CTP GWP – post-reform rate reduction
- Motor and home renewal levels high and stable
- ~\$70m GWP reduction from exiting smaller business areas
- Average commercial rate increase of ~6%, across the year
- Lower commercial volumes, influenced by pricing remediation activity

Higher underlying margin of 15.5%

- ~140bps improvement ex-quota share
- Benefit from Group-wide optimisation program
- Higher Consumer margin
 - Personal line rates broadly matching claims inflation
 - Lower CTP profitability – full year of NSW cap
- Encouraging improvement in Business margin
 - More normal large loss experience
- Lower reported margin of 14.9%
 - Adverse perils effect
 - Lower reserve releases

Australia insurance margin



Positive FY20 outlook

- Further improvement in underlying margin expected
 - Increased optimisation-related benefits
 - Partial offset from increased regulatory costs
- Reported profit to include lower reserve releases
- Modest GWP growth
 - Short tail personal line rate increases
 - Lower CTP GWP
 - Flat commercial GWP – further rate increases, lower volumes
 - >\$100m reduction from divestment of underwriting agencies



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New Zealand

Strong performance maintained

NZ\$ GWP growth of 5.2%

- Consumer growth of ~5%
 - Largely rate-driven
 - Supplemental volume growth in motor
 - Led by AMI brand and bank partners channel
- Business growth of over 5%
 - Deceleration of rate increases
 - Lower overall volumes
 - Strong commercial motor growth (rate + volume)
 - Improved retention
- Favourable FX effect – reported GWP growth of 7.0%

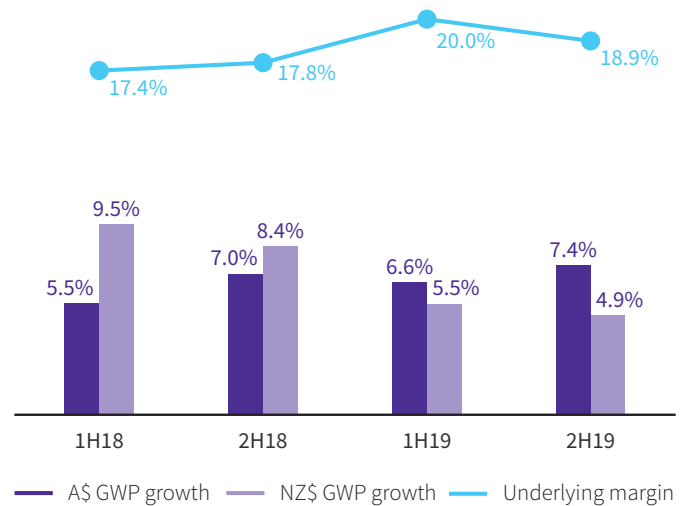
Higher FY19 underlying margin of 19.5%

- ~65bps improvement, ex-quota share effect
- Improved commercial lines profitability – earn-through of rate increases
- Benign claims experience, including non-perils
- Higher reported margin of 24.7%
 - Very low peril incidence
 - Absence of FY18 net reserve strengthening

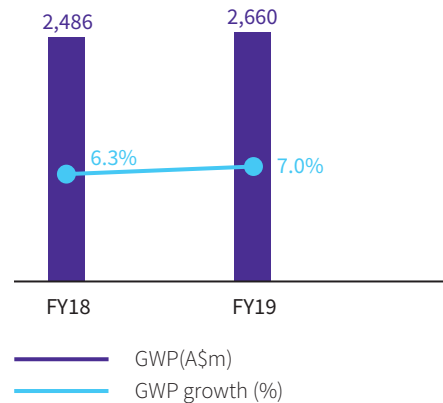
Sound GWP growth outlook

- GWP growth expected from both Consumer and Business
 - Mixture of rate and volume
- Underlying profitability expected to remain strong

New Zealand – GWP growth / underlying margin



New Zealand – GWP





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Strategy

At IAG, our purpose is to make your world a safer place: for our customers, partners, employees, shareholders and communities.

We believe our purpose will enable us to become a more sustainable business over the long term and deliver stronger and more consistent returns for our shareholders.

Our strategy is to optimise our core insurance business and create future growth options by making customers feel safer on the road, in their homes and at work.

We are focused on:

- Building a lean, efficient and modular insurance operation through simplification;
- Creating a customer-focused organisation with enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation; and
- Creating a more agile organisation.

Our simplification program is well-advanced enabling us to increase our focus on customer engagement and growth. This includes extending our strategic partnerships to offer products and services that are adjacent to our insurance business, so we can make our customers and the community feel safer on the road, in their homes and at work.

We are also leveraging our assets – including our data, customer reach and brands – to launch and scale new businesses in markets that complement these adjacent products and services.

Our strategy goals are centred around building deeper engagement with our customers and growing the number of customers in our network of brands. We seek to create more value for our customers by making their world a safer place and to increase the lifetime value of our customer relationships.

Peter Harmer
IAG Managing Director and
Chief Executive Officer

Our operational scorecard

Simplification well-advanced; increased future focus on customer engagement and growth

FY19 activities

FY20 priorities

	FY19 activities	FY20 priorities
 Customer	<ul style="list-style-type: none"> • Enhanced customer digital experiences, via simpler motor and home claim processes • Adopted a customer journey design framework to deliver offerings and experiences accessible to all customers • Developed a real-time, interactive customer insights portal, providing IAG employees with a deeper customer understanding 	<ul style="list-style-type: none"> • Meet changing customer needs by accelerating our investment in data, artificial intelligence and innovation to build out new businesses • Accelerate use of the public cloud to more fully access its benefits, allowing more rapid, efficient and flexible customer decisions • Apply behavioural science insights to future products to create value for customers and improve their safety
 Simplification	<ul style="list-style-type: none"> • Claims component of systems consolidation largely complete, across Australia and New Zealand • Transition of targeted activities to offshore operational partners completed • Progressed divestment of / exit from non-core businesses 	<ul style="list-style-type: none"> • Decommissioning of redundant claims systems following technology platform consolidation • Commence execution of policy administration system consolidation • Geographic expansion of optimised repair model within Australia and New Zealand
 Agility	<ul style="list-style-type: none"> • Embedded Leading@IAG program, strengthening the connection of IAG's purpose and strategy to individual accountability and performance • Continued deployment of Future ME program, enabling employees to build their knowledge and preparedness to participate in the workforce of the future 	<ul style="list-style-type: none"> • As part of the MyFlex program, launch Switch shift management tool, enabling greater workforce flexibility in a cost-effective and customer-centric manner • Continued development of partnerships, products and shared value programs that drive safer communities and deliver on IAG's purpose



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Return to shareholders

Dividend and capital position

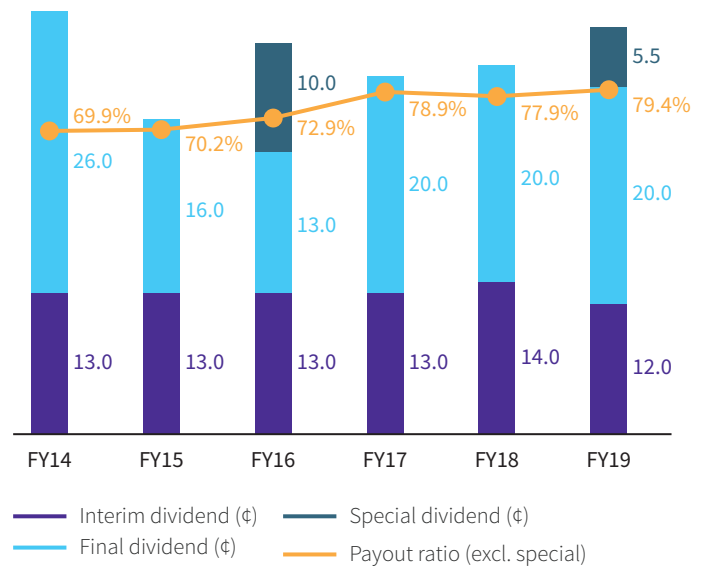
The Board has determined to pay a final dividend of 20.0 cents per ordinary share franked to 70%. The final dividend will be paid on 30 September 2019. This brings the full year dividend to 32.0 cents per share (FY18: 34.0) and represents a cash payout ratio of 79.4% (FY18: 77.9%). It remains IAG's policy to distribute 60-80% of cash earnings on a full year basis.

As originally advised in August 2018, IAG can no longer guarantee fully franked dividend payments and anticipates franking to be in the range of 70% to 100% in future periods. This reflects:

- The move to a higher payout policy in recent years
- A sequence of capital management initiatives, often utilising IAG's franking capacity
- A significant portion of the company's earnings being derived from New Zealand, where no franking credit generation attaches.

IAG's capital position remains strong. At 30 June 2019 IAG's Common Equity Tier 1 (CET1) ratio was 1.31, and is 1.12 after allowing for the payment of the final dividend, against a target benchmark of 0.9-1.1.

Dividend history – FY14-FY19



FY20 outlook

Further improvement in underlying performance expected

FY20 guidance measures



GWP growth
Low single digit



Reported insurance margin
16-18%

Underlying assumptions

1 Net losses from natural perils of \$641m, in line with allowance (FY19 \$608m)

2 Reserve releases of around 1% (FY19 1.7%)

3 No material movement in foreign exchange rates or investment markets

GWP growth guidance of 'low single digit'

- Rate increases and modest volume growth across short tail personal lines
- Further commercial rate increases, reduced pace in New Zealand
- Lower commercial volumes, principally from business exits (>\$100m reduction in GWP from divested underwriting agency interests)
- Lower CTP GWP – scheme change effects in NSW, ACT and SA

Reported insurance margin guidance of 16-18%

- Improved underlying performance, including an increase in pre-tax benefit from optimisation program initiatives of ~\$160m
- Some offset from higher regulatory and compliance costs – up to \$50m increment in FY20
- Increased fee based business pre-tax loss of ~\$50m (FY19: pre-tax loss of \$9m) – accelerated investment in data, artificial intelligence and innovation technologies, and associated new businesses

Asia update

IAG continues to explore options for its remaining investments in Asia. In June 2019, IAG confirmed discussions had been held with external parties regarding a potential sale of all or part of its 26% interest in SBI General in India. IAG is in advanced discussions with a number of bidders, which may result in one or more transactions being completed.



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IAG financial performance

Group results	1H18 A\$m	2H18 A\$m	1H19 A\$m	2H19 A\$m	FY18 A\$m	FY19 A\$m	FY19 vs FY18 Mvt
Gross written premium	5,649	5,998	5,881	6,124	11,647	12,005	+3.1%
Gross earned premium	5,780	5,742	5,984	5,958	11,522	11,942	
Reinsurance expense	(1,613)	(2,238)	(2,373)	(2,331)	(3,851)	(4,704)	
Net earned premium	4,167	3,504	3,611	3,627	7,671	7,238	
Net claims expense	(2,505)	(2,112)	(2,358)	(2,261)	(4,617)	(4,619)	
Commission expense	(387)	(320)	(324)	(351)	(707)	(675)	
Underwriting expense	(653)	(517)	(535)	(506)	(1,170)	(1,041)	
Underwriting profit	622	555	394	509	1,177	903	
Investment income on technical reserves	123	107	102	219	230	321	
Insurance profit	745	662	496	728	1,407	1,224	-13.0%
Net corporate expense	-	(9)	5	(9)	(9)	(4)	
Interest	(39)	(43)	(48)	(46)	(82)	(94)	
Profit/(loss) from fee based business	-	(12)	5	(14)	(12)	(9)	
Share of profit from associates	19	15	19	26	34	45	
Investment income on shareholders' funds	129	36	(7)	234	165	227	
Profit before income tax and amortisation	854	649	470	919	1,503	1,389	-7.6%
Income tax expense	(211)	(173)	(123)	(240)	(384)	(363)	
Profit after income tax (before amortisation)	643	476	347	679	1,119	1,026	
Non-controlling interests	(19)	(60)	(25)	(73)	(79)	(98)	
Profit after income tax and non-controlling interests (before amortisation)	624	416	322	606	1,040	928	
Amortisation and impairment	(65)	(28)	(29)	(28)	(93)	(57)	
Profit attributable to IAG shareholders from continuing operations	559	388	293	578	947	871	-8.0%
Net profit/(loss) after tax from discontinued operations	(8)	(16)	207	(2)	(24)	205	
Profit attributable to IAG shareholders	551	372	500	576	923	1,076	+16.6%

Insurance margin	FY18		FY19	
	A\$m	%	A\$m	%
Management reported insurance margin	1,407	18.3%	1,224	16.9%
Net natural peril claim costs less allowance	(84)	(1.0%)	19	0.3%
Reserve releases in excess of 1% of NEP	(228)	(3.0%)	(54)	(0.7%)
Credit spread movements	(14)	(0.2%)	6	0.1%
Underlying insurance margin	1,081	14.1%	1,195	16.6%

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