NEWS RELEASE 21 August 2015

IAG DELIVERS SOUND 2015 RESULT AND CONFIRMS LONG-TERM OUTLOOK

Insurance Australia Group Limited (IAG) reported a FY15 insurance profit of $1.1 billion (FY14: $1.6 billion) equating to a reported insurance margin of 10.7% (FY14: 18.3%) – a sound result in light of a significant increase of $495 million in net natural peril claim costs, lower net reserve releases, and a more competitive environment in commercial markets.

Key financial indicators included:

- Insurance profit $1.1 billion (FY14:$1.6 billion)
- Reported insurance margin 10.7% (FY14:18.3%)
- Underlying insurance margin[1] 13.1% (FY14:14.2%)
- Gross written premium (GWP) growth of 17% to $11.4 billion (FY14:$9.8 billion)
- Net profit after tax $728 million (FY14:$1.2 billion)
- Cash return on equity 15.3%, above 15% long-term through-the-cycle target
- Final fully franked dividend 16 cents per share. Full year payout 29 cents (FY14:39 cents)
- Full year dividend payout ratio 70.2% of cash earnings (FY14:69.9%)

IAG Managing Director and Chief Executive Officer Mike Wilkins said the Group remained well positioned in a rapidly changing and competitive market environment.

“Our strong franchises in Australia and New Zealand, our increasing digital presence, and the significant opportunities available to us in the fast growing Asian market mean we are well placed for the future.

“China in particular is a key focus for us as we pursue opportunities which have more of a national presence, enabling us to capitalise on a market that remains under-penetrated and with significant growth potential,” Mr Wilkins said.

IAG’s underlying insurance margin, the Group’s preferred measure of business performance, remained strong at 13.1% (FY14:14.2%), as the Group integrated the lower-margin former Wesfarmers insurance business.

“While our full year reported performance was affected by a substantial increase in net natural peril claim costs, particularly in the second half, we continue to enjoy a strong position as we respond to competitive pressures while continuing to meet the evolving needs of our customers,” Mr Wilkins said.

“Customer expectations and preferences are changing, and digital technology is enabling new and innovative approaches in anticipating, meeting and exceeding these expectations. Our creation of IAG Labs will drive digitisation and innovation across IAG and its brands to ensure we meet and exceed customer expectations. It will do so by bringing together technology, customer insights and a venturing unit focused on business opportunities and disruptive technologies.”

[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.

Along with the integration of the Wesfarmers business, the implementation of IAG's new Australian operating model is proceeding well. From these two initiatives the Group achieved its targeted pre-tax run-rate benefits of $80 million by 30 June 2015 and is on course to reach a full benefit run-rate of $230 million by the end of FY16.

The Group's FY15 results were not affected by the 20% quota share arrangement with Berkshire Hathaway, announced on 16 June 2015. This arrangement commenced on 1 July and is expected to reduce earnings volatility for the Group.

The reported FY15 insurance margin of 10.7% includes:

- Net natural peril claim costs of $1.048 billion, $348 million higher than the related allowance of $700 million for the year and $495 million higher than FY14;
- A reduced favourable impact of $33 million from the narrowing of credit spreads compared to $100 million in FY14; and
- Prior period net reserve releases of $167 million, equivalent to 1.6% of net earned premium (NEP), down from $248 million (2.9% of NEP) in FY14, with higher than expected CTP releases offset by net strengthening of around NZ$150 million associated with the FY11 New Zealand earthquakes.

In FY15, IAG significantly strengthened its gross claim reserves in relation to the FY11 Canterbury earthquakes in New Zealand. While the bulk of this gross strengthening occurred in December 2014, a more modest increase occurred at the end of FY15 which means the gross claim reserves for the February 2011 event now exceed the Group's NZ$4 billion reinsurance limit.

This strengthening has been driven by the continuing notification of new household claims that have exceeded the Earthquake Commission's residential dwelling limit and, to a lesser extent, an increase in forecast repair costs and a series of adverse court judgements which have affected the broader insurance industry. With more than 78% of related claims by number now settled, the Group expects the Canterbury rebuild will be largely complete by the middle of the 2016 calendar year.

DIVISIONAL RESULTS

Personal Insurance continued to perform well with 5.2% GWP growth, largely sourced from the former Wesfarmers personal motor and home business, together with pleasing like-for-like growth in short tail personal lines. Lower long tail GWP reflected the exit from the Queensland CTP market in the prior year and increased competition in the ACT. The division produced an underlying margin of 13.9% while its reported margin of 15.9% was lower than FY14 (21.4%), reflecting increased net natural peril claim costs, partially offset by higher prior period net reserve releases.

Commercial Insurance GWP growth of 40.7% reflected the addition of the former Wesfarmers business. Like-for-like GWP growth was modestly negative, reflecting slightly lower average rates and the maintenance of underwriting discipline in an increasingly competitive market. The business maintained a double digit underlying margin of 10.5%, which was a slightly reduced outcome compared to FY14 (12.1%). The reported margin of 3.0% was considerably lower, primarily due to higher net natural peril claim costs.

New Zealand continued to perform strongly as the business maintained its market-leading position, with GWP growth of 22.8% derived from the acquired local former Wesfarmers business which was augmented by a favourable foreign exchange effect. Modest like-for-like growth in direct personal lines was countered by continuing competitive conditions in the commercial market. Its underlying margin was higher at 15.9% (FY14:14.8%) while reported margin fell slightly to 10.8% (FY14:11.5%). This was after an earthquake-related net reserve strengthening in 2H15 which reduced the full year margin by over 600 basis points, partially offset by a favourable natural perils experience in 1H15.

Asia's overall earnings contribution increased to $21 million (FY14:$14 million). The established businesses in Thailand and Malaysia continued to perform well and the combined operating loss from developing markets (India, China, Vietnam and Indonesia) reduced significantly to $1 million. There was strong consolidated GWP growth of over 11% driven by a resumption of growth in Thailand. Proportional GWP grew by more than 9% to $794 million, assisted by continued strong growth in India. IAG now participates in a gross regional GWP pool in Asia of nearly $1.7 billion.

As advised in June, IAG is investigating opportunities to participate in the Chinese insurance market on a national scale as opposed to the regional presence that Bohai Insurance currently provides. As a result, IAG has decided not to participate in a capital raising by Bohai, and this is expected to result in IAG's ownership in Bohai falling from 20% to under 14%. Coupled with a revision to the expected cash flows of Bohai, this has influenced the Group's writedown of its investment by $60 million which is included in the Group's FY15 amortisation and impairment expense.

CAPITAL POSITION

The Group's capital position remains strong with a Prescribed Capital Amount (PCA) multiple of 1.7, which is above the Group's targeted range of 1.4-1.6. The Common Equity Tier 1 (CET1) ratio was 1.14, compared to a targeted range of 0.9-1.1. The 30 June capital position, compared to the Group's already strong capital position at the end of 1H15, includes the effect of the equity placement to Berkshire Hathaway and a modest initial impact from the associated quota share agreement. A more significant favourable effect is expected in FY16.

OUTLOOK

For FY16, IAG expects another year of solid performance. GWP growth is anticipated to be relatively flat as the Group continues to maintain its underwriting discipline in an expected low growth environment, characterised by challenging market conditions and subdued inflationary pressures.

Underlying profitability is expected to remain strong, as further benefits from the continuing integration of the former Wesfarmers business and the move to the new operating model are realised, cushioning the impact of competitive pressures. In addition, implementation of the quota share agreement with Berkshire Hathaway from 1 July 2015 is expected to reduce earnings volatility from 20% of the Group's business.

IAG's reported insurance margin guidance for FY16 remains 14-16%. This includes a favourable effect of at least 200 basis points from the implementation of the quota share. After allowance for the quota share, underlying profitability in FY16 is expected to be consistent with that of FY15.

Underlying assumptions behind the reported margin guidance include:

- Net losses from natural perils in line with allowance of $600 million;
- Prior period reserve releases of at least 1% of NEP; and
- No material movement in foreign exchange rates or investment markets.

IAG FINANCIAL PERFORMANCE

GROUP RESULTS	1H14 A$m	2H14 A$m	1H15 A$m	2H15 A$m	FY14 A$m	FY15 A$m	FY15 vs FY14 Mvt
Gross written premium	**4,786**	**4,993**	**5,603**	**5,837**	**9,779**	**11,440**	**+17.0%**
Gross earned premium	4,885	4,836	5,805	5,720	9,721	11,525	
Reinsurance expense	(565)	(512)	(651)	(545)	(1,077)	(1,196)	
Net earned premium	**4,320**	**4,324**	**5,154**	**5,175**	**8,644**	**10,329**	**+19.5%**
Net claims expense	(2,508)	(2,693)	(3,481)	(3,460)	(5,201)	(6,941)	
Commission expense	(400)	(411)	(518)	(516)	(811)	(1,034)	
Underwriting expense	(741)	(751)	(889)	(924)	(1,492)	(1,813)	
Underwriting profit	**671**	**469**	**266**	**275**	**1,140**	**541**	**-52.5%**
Investment income on technical reserves	87	352	427	135	439	562	
Insurance profit	**758**	**821**	**693**	**410**	**1,579**	**1,103**	**-30.1%**
Net corporate expense	(1)	(67)	(44)	(111)	(68)	(155)	
Interest	(47)	(51)	(52)	(55)	(98)	(107)	
Profit from fee based business	12	-	10	9	12	19	
Share of profit/(loss) from associates	(3)	5	9	7	2	16	
Investment income on shareholders' funds	233	163	137	86	396	223	
Profit before income tax and amortisation	**952**	**871**	**753**	**346**	**1,823**	**1,099**	**-39.7%**
Income tax expense	(266)	(206)	(68)	(51)	(472)	(119)	
Profit after income tax (before amortisation)	**686**	**665**	**685**	**295**	**1,351**	**980**	
Non-controlling interests	(34)	(63)	(63)	(39)	(97)	(102)	
Profit after income tax and non-controlling interests (before amortisation)	**652**	**602**	**622**	**256**	**1,254**	**878**	**-30.0%**
Amortisation and impairment	(10)	(11)	(43)	(107)	(21)	(150)	
Profit attributable to IAG shareholders	**642**	**591**	**579**	**149**	**1,233**	**728**	**-41.0%**

INSURANCE MARGIN	FY14 A$m	FY14 %	FY15 A$m	FY15 %
Reported insurance margin	1,579	18.3	1,103	10.7
Net natural peril claim costs less allowance	(87)	(1.0)	348	3.3
Reserve releases in excess of 1% of NEP	(162)	(1.9)	(64)	(0.6)
Credit spread movements	(100)	(1.2)	(33)	(0.3)
Underlying insurance margin	1,230	14.2	1,354	13.1

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 $11.4 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). IAG also has interests in general insurance joint ventures in Malaysia, India and China. For further information please visit www.iag.com.au.

Media
Amanda Wallace
T +61 (0)2 9292 9441
M +61 (0)422 379 964
E amanda.wallace@iag.com.au

Investor Relations
Simon Phibbs
T +61 (0)2 9292 8796
M +61 (0)411 011 899
E simon.phibbs@iag.com.au

Insurance Australia Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
Australia
T +61 (0)2 9292 9222
www.iag.com.au