

INSURANCE AUSTRALIA GROUP (IAG)

15 AUGUST 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Gross written premium GWP (\$m)	11,647	11,439	+1.8%
Insurance Profit (\$m)	1,407	1,270	+10.8%
Underlying margin (%)	14.1	12.4	+170bps
Reported margin (%)	18.3	15.5	+280bps
Net profit after tax (\$m)	923	929	-0.6%
Net profit after tax consensus (\$m)	1,025		
Final Dividend (\$)	0.20	0.20	n/a

Insurance Australia Group (IAG) returns capital but guidance misses the mark

- Insurance Australia Group (IAG)** recorded a cash profit of \$1.03 billion up 4%, helped by falling costs in its motor unit, higher commercial rates and a solid result from its New Zealand arm. NSW Compulsory Third Party insurance (CTP) reform changes helped the result as profitability derived from initial reform measures have reduced costs. Also the number of large losses in Australian commercial property reduced over the year but are still at elevated levels.
- IAG is simplifying its operating structure by embedding a single Australia Division, which recorded a modest recovery in business margins. The fact the company saw lower natural peril payouts over the year also helped the underlying profit. The \$120 million allowance of reinsurance protection from calendar 2017 covered the five major payout events in 1H18, including the Melbourne hailstorm.
- Its IAG New Zealand division reported a strong performance and maintained healthy NZ\$ GWP growth of 8.9%. Its Consumer Division also grew by 8%, led by higher motor rates and volumes. Unfortunately adverse currency movements of around \$60 million, reduced returns. The agreed sale of IAG's operations in Thailand, Indonesia and Vietnam will boost FY19 net profit by approximately \$200 million with a bulk settlement due by 31 August 2018.
- IAG said it expects GWP growth of 2-4% in FY19 after reporting a 1.8% lift in FY18. After meeting the FY18 insurance margin target of between 16-18% with growth of 18.3%, IAG said it expects FY19 reported margin guidance again to be in the range of 16-18%. This is assuming the natural peril allowance of \$608 million is not breached. IAG expects to see an improvement in underlying performance, including pre-tax benefit of around \$100 million from IAG's optimisation program activities.
- IAG announced a capital management initiative for shareholders of \$0.25 per share (totalling \$592 million). This is a result of the absence of significant operational capital demands and the long term benefit from around \$400 million of earthquake related tax losses. If approved at the company's Annual General Meeting (AGM) on the 26th of October, shareholders will receive a \$0.195 capital return and a \$0.055 special dividend. IAG said it will pay a final dividend of \$0.20 on 27 September 2018.

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