



Wesfarmers Insurance

NEWS RELEASE

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NATURAL DISASTERS IN AUSTRALIA & NZ IMPACT EARNINGS

Recent acquisitions and new growth initiatives provide earnings momentum

Wesfarmers Insurance announced today earnings before tax and amortisation ('EBITA') of \$30 million, for the full year to 30 June 2011, compared with \$131 million for the previous year, a decrease of 77.1 per cent. The decline in earnings was driven by underwriting losses associated with the unprecedented number of catastrophe events in Australia and New Zealand.

Operating revenue of \$1.7 billion was an increase of 2.4 per cent. The combined operating ratio for underwriting was 109.3 per cent and the EBITA margin for the broking business was 27.5 per cent.

Wesfarmers Insurance's Broking operations reported earnings before tax of \$62 million, an increase of 5.1 per cent on the prior year.

Event claims and reinsurance reinstatement costs exceeded allowances by \$110 million. The impact of the unprecedented event claims has resulted in higher reinsurance costs for 2011/12.

Commenting on the result, Managing Director of Wesfarmers Insurance, Rob Scott said: "These natural disasters have been extremely challenging for the insurance industry and have resulted in a record number of claims. We have allocated significant resources to help our clients and business partners with their claims and I am proud of the response from our teams across Australia and New Zealand."

"Although these events resulted in underwriting losses for the year, I am pleased with the progress we have made across our business to improve underlying performance and to bring new growth opportunities to market. This includes growth in insurance broking, our launch of Coles Insurance, Lumley's my.place and the acquisition of FMR Risk by Crombie Lockwood".

"It was good to see our insurance broking operations grow both revenue and earnings over the past year, notwithstanding the strengthening Australian dollar. We are confident that recent bolt-on acquisitions and strategic hires will provide further growth momentum for our broking operations".

Key components of the result are:

- Unprecedented number of catastrophe events in Australia & NZ
- Net retention on CAT program exceeded six times with event claims & reinsurance reinstatements \$110m over allowances

- Notable events for the year included three major earthquakes in Christchurch NZ in September, February and June, the Brisbane floods, Cyclone Yasi and severe storms in WA associated with Cyclone Bianca.
- Liability Adequacy Test adjustment of \$32m arising from:
 - Higher reinsurance costs in FY2012; &
 - Change in reinsurance programme structure
- Continued improvement in underlying underwriting performance
- New growth initiatives gaining traction (my.place, Coles Insurance)
- Revenue growth in broking operations ahead of prior year
- Acquisition of FMR – Crombie Lockwood now the leading broker in NZ
- Strong growth from premium funding
- Higher investment income from an increase in interest yields

Outlook

- Continued focus on disciplined underwriting & pricing
- Capitalise on strong customer response to new initiatives
 - Retail personal lines
 - Corporate Solutions
 - Broker EDI solution (my.place)
- Significant increase in reinsurance costs & higher retentions from 1 July 2011 will put pressure on insurance margin
- Broking earnings will benefit from:
 - Full year contribution from FMR
 - Targeted recruitment of specialist brokers
 - Focus on premium funding via in-house vehicle
- Bolt-on acquisitions will continue to be assessed

On the outlook for the 2012 financial year Rob Scott said: “Our businesses are in good shape following the industry challenges over the past year. Our focus remains on achieving appropriate risk-based pricing to compensate for higher claims and reinsurance costs whilst delivering value to our clients and business partners. Global reinsurance markets are increasingly viewing Australia and NZ as riskier places to do business.

“As an industry, we need to work with Governments at all levels to ensure an appropriate investment in risk mitigation and disaster resilience in order to maintain a stable and robust insurance sector and affordable insurance protection for clients”.

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