

Financial results

Year ended 30 June 2008

Michael Wilkins, Managing Director & Chief Executive Officer
Nicholas Hawkins, Chief Financial Officer

22 August 2008

ABN 60 090 739 923



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All amounts are presented in Australian dollars unless otherwise stated.

FY08 refers to the financial year ended 30 June 2008, and FY09 refers to the financial year ending 30 June 2009.

AGENDA

- **Group results** **Michael Wilkins**
- **Segment analysis** **Michael Wilkins**
- **Investments, reinsurance & capital** **Nicholas Hawkins**
- **Group outlook** **Michael Wilkins**
- **Questions**

Group results

Michael Wilkins

ABN 60 090 739 923



YEAR IN SUMMARY

- **Disappointing result**
 - Continued soft cycles in commercial and UK motor
 - Increased claims frequency
 - Sub-optimal expense structure and market responsiveness
 - Emerging economic and inflationary pressures
 - Exacerbated by weak investment markets
- **Increasing discipline and focus**
 - Rates up in personal lines
 - Rate rises in commercial at expense of volume
 - Rebalanced UK portfolio toward specialty motor classes
 - Cost initiatives implemented in UK and New Zealand
- **Completed strategic review to improve shareholder value in FY09 and beyond**
 - Refocus on Australia and New Zealand
 - Scale-back operations in UK to profitable segments
 - Pursue growth in Asia
 - Simpler structure aligned to customer needs
 - Programme on track to deliver \$130m (pre-tax) pa in savings in Australia

FINANCIALS IN SUMMARY

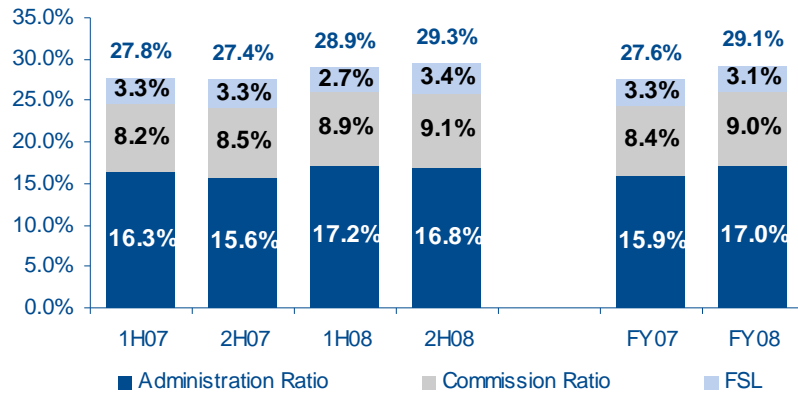
	FY08 RESULT
GWP growth GWP of \$7,793m up from \$7,381m in FY07	+5.6%
NEP growth NEP of \$7,295m up from \$6,743m in FY07	+8.2%
Insurance margin (excluding Australian restructuring) Insurance profit of \$448m affected by: <ul style="list-style-type: none"> - Claims from natural perils of \$502m (FY07: \$411m) - Impact of widening credit spreads of \$122m (FY07: nil) - Lower prior period reserve releases of \$406m (FY07: \$485m) 	6.1%
Expense ratio Up from 27.6% in FY07	29.1%
Investment income on shareholders' funds Significantly lower than \$301m in FY07 Includes \$69m revaluation benefit from RES exchange right	\$24m

FINANCIALS IN SUMMARY

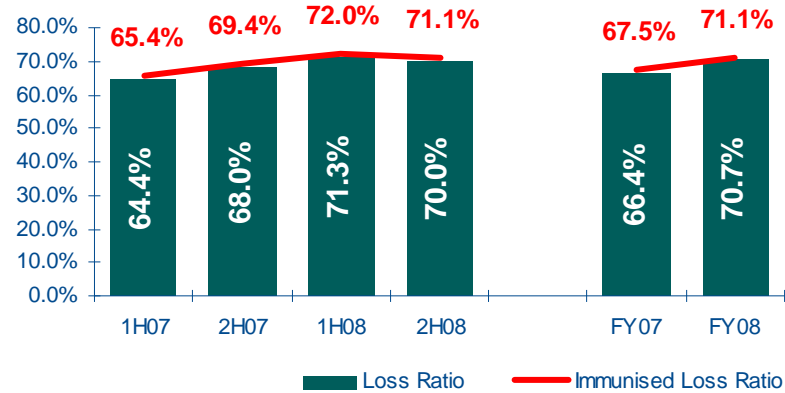
	FY08 RESULT
NPAT Affected by: - Impairment of UK assets (nil tax) - Restructuring costs of Australian cost saving programme (pre-tax)	(\$261m) \$350m \$60m
Reported EPS Cash EPS of 9.62 cps (FY07: 39.52 cps)	(14.29)cps
Cash ROE Reported ROE of (5.9%) (FY07: 13.5%)	2.7%
Final dividend Total dividend for the year 22.5 cps (FY07: 29.5 cps) Fully franked and payable on 3 October 2008	9cps

KEY INSURANCE RATIOS

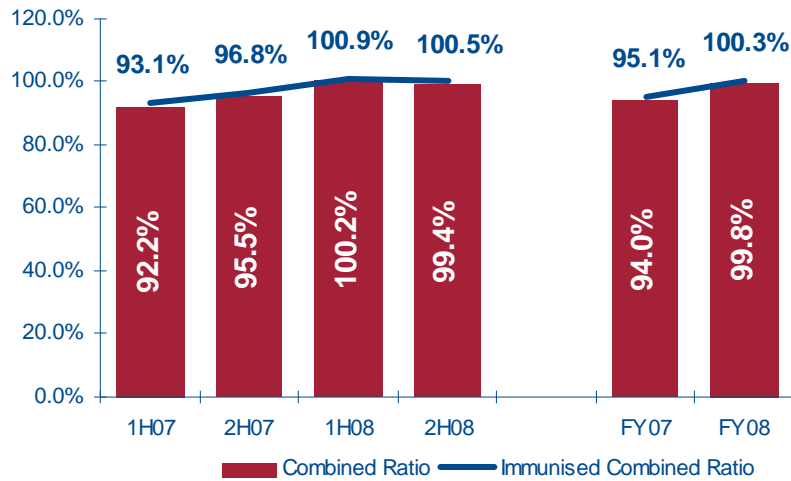
Expense ratio



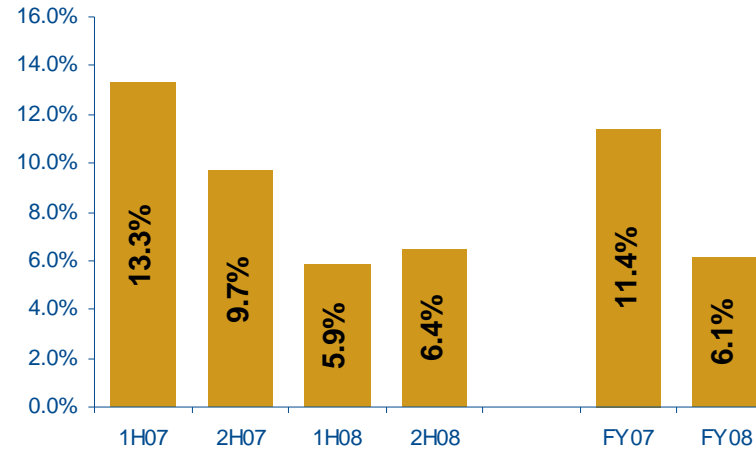
Loss ratio



Combined ratio



Insurance margin (before tax)



SEGMENT RESULTS

RESULTS BY SEGMENT	2H07	2H08	FY07	FY08
	A\$m	A\$m	A\$m	A\$m
- Direct	259	211	451	312
- Intermediated	65	21	285	207
Australia	324	232	736	519
- United Kingdom	44	7	46	24
- New Zealand	47	4	86	(17)
- Asia	3	(3)	7	(4)
- Asia RI	(20)	(14)	(29)	(52)
International	75	(6)	110	(49)
Total	399	226	846	470
Investment income on shareholders' funds	135	(52)	301	24
Interest and Corporate Expenses	(106)	(140)	(185)	(223)
Net profit before tax	428	34	963	271
Tax expense, minority interests & intangibles	(221)	(405)	(411)	(532)
Net profit after tax	207	(371)	552	(261)

DIRECT INSURANCE

Solid performance but room to improve

DIRECT INSURANCE FINANCIAL	2H07	2H08	FY07	FY08
	A\$m	A\$m		
Gross written premium	1,470	1,501	2,889	2,941
Insurance profit/ (loss)	259	211	451	312
Insurance Ratios				
Loss ratio	68.0%	71.0%	70.2%	74.8%
Expense ratio	20.0%	22.0%	20.2%	21.4%
Commission ratio	2.7%	1.9%	2.6%	2.2%
Administration ratio	17.3%	20.1%	17.7%	19.2%
Combined ratio	87.9%	92.9%	90.5%	96.2%
Insurance margin	18.8%	15.0%	16.2%	11.1%

Key points/variances to FY07

- **GWP grew 3.8% (adjusted for LTCS)**
 - All portfolios grew GWP
 - NSW short-tail up 4.1%
 - CTP holding share in NSW at 38%, QLD now 6%
- **Average claims cost rising**

Actions taken

- **Rates increased**
- **Expense savings initiated**

Outlook

- **Grow in line with market while implementing further rate increases**
- **Initiating cost savings**
- **Refining underwriting**
- **New product initiatives and refinements underway**

INTERMEDIATED INSURANCE

Maintained pricing discipline in soft market

INTERMEDIATED INSURANCE FINANCIAL PERFORMANCE	2H07	2H08	FY07	FY08
	A\$m	A\$m	A\$m	A\$m
Gross written premium	1,330	1,310	2,600	2,553
Insurance profit	27	20	220	174
Profit from fee based businesses	38	1	65	33
Total Intermediated Insurance Result	65	21	285	207
Insurance Ratios				
Loss ratio	65.2%	67.1%	60.0%	62.0%
Expense ratio	36.3%	37.7%	35.4%	36.6%
Commission ratio	14.7%	15.8%	14.3%	15.0%
Administration ratio	21.6%	21.8%	21.0%	21.7%
Combined ratio	101.5%	104.7%	95.3%	98.7%
Insurance margin	2.4%	1.7%	9.4%	7.4%

Key points/variances to FY07

- **GWP down 1.8%**
 - Volume ceded where price inadequate
- **Profitability continued in workers' compensation and liability**
- **Insurance profit down 20.9%**
 - Due to higher storm costs, claims inflation and lower releases

Key actions

- **Maintained pricing discipline**
- **Expenses contained**

Outlook

- **Promising signs around the cycle**
- **Continue customer retention focus**
- **Improve efficiency and effectiveness**

UNITED KINGDOM

Focusing on specialist motor

UK FINANCIAL PERFORMANCE	2H07	2H08	FY07	FY08
	A\$m	A\$m	A\$m	A\$m
Gross written premium	642	540	725	1,125
Insurance profit	29	7	30	28
Profit/ (loss) from fee based businesses	17	1	18	(1)
Share of profit/ (loss) from associates	(2)	(1)	(2)	(3)
Total UK Result	44	7	46	24
Insurance Ratios				
Loss ratio	74.7%	71.9%	76.2%	73.5%
Expense ratio	25.5%	28.6%	24.3%	29.8%
Commission ratio	7.2%	11.5%	6.4%	11.1%
Administration ratio	18.3%	17.1%	17.9%	18.7%
Combined ratio	100.2%	100.4%	100.5%	103.3%
Insurance margin	5.5%	1.5%	5.1%	2.8%

Key points/variances to FY07

- **GWP up 55% reflecting full year of FY07 acquisitions**
- **Private motor remains difficult**
- **Equity remains profitable despite weak investment performance**
- **Advantage performance poor, but now operating at near break-even**
- **Fee based business impacted by non-recurring costs of \$24m**

Key actions

- **Ongoing rating actions**
- **Increased exposure to specialist lines**

Outlook

- **Scaling back private motor operations**
- **Focus on Equity Red Star and specialist distribution**

NEW ZEALAND

First full-year loss from high claims and restructuring

NEW ZEALAND FINANCIAL PERFORMANCE	2H07	2H08	FY07	FY08
	A\$m	A\$m	A\$m	A\$m
Gross written premium	508	492	968	974
Insurance profit	47	4	86	(17)
Total New Zealand result	47	4	86	(17)
Insurance Ratios				
Loss ratio	63.0%	68.5%	61.6%	71.4%
Expense ratio	28.5%	33.2%	30.9%	33.3%
Commission ratio	10.9%	11.5%	10.7%	11.1%
Administration ratio	17.6%	21.7%	20.2%	22.1%
Combined ratio	91.4%	101.7%	92.6%	104.6%
Insurance margin	10.9%	1.0%	10.0%	(2.0%)

Key points/variances to FY07

- GWP up 2.4% in NZ\$
- Storms, earthquakes and large losses totalled \$109m (net)

Key actions

- Increased rates in most classes
- Transitioned to new direct personal lines IT platform
- Implemented cost savings of \$16m pa from 2H08

Outlook

- GWP growth on back of hardening rates and 're-launch' of State direct brand
- Business to benefit from full year impact of lower cost base (margin impact of around 1.5%)

ASIA INSURANCE

Investing for growth

ASIA FINANCIAL PERFORMANCE	2H07	2H08	FY07	FY08
	A\$m	A\$m	A\$m	A\$m
Gross written premium	89	85	168	174
Insurance profit	4	3	9	3
Profit from fee based businesses	(3)	(2)	(5)	(4)
Share of profit from associates	4	(3)	7	-
Corporate expenses	(2)	(1)	(4)	(3)
Total Asia Result	3	(3)	7	(4)
Insurance Ratios				
Loss ratio	65.7%	64.6%	65.4%	65.2%
Expense ratio	35.8%	35.4%	33.8%	35.6%
Commission ratio	19.4%	20.0%	18.5%	19.7%
Administration ratio	16.4%	15.4%	15.4%	15.9%
Combined ratio	101.5%	100.0%	99.2%	100.8%
Insurance margin	6.0%	4.6%	6.9%	2.3%

Key points/variances to FY07

- **GWP up 5% in THB**
 - Market remains challenging
- **AmAssurance GWP up 15% in MYR**
 - Profit reduced by claims inflation in bodily injury
- **Weak investment markets**

Key actions

- **Thailand - repriced business and refined portfolio**
- **AmAssurance - improved reserving and processing of bodily injury claims**

Outlook

- **Average growth of 8-10% in local currency terms**
- **Move to 49% of AmAssurance general insurance**
- **Complete JV in India**

ASIAN REINSURANCE

Impacted by UK floods

ASIAN REINSURANCE FINANCIAL PERFORMANCE	2H07	2H08	FY07	FY08
	A\$m	A\$m	A\$m	A\$m
Gross written premium	18	14	31	26
Insurance profit	(20)	(14)	(29)	(52)
Total Asia Re Result	(20)	(14)	(29)	(52)
Insurance Ratios				
Loss ratio	141.4%	96.3%	137.1%	112.0%
Expense ratio	31.0%	18.5%	48.6%	21.3%
Commission ratio	6.9%	3.7%	8.6%	7.3%
Administration ratio	24.1%	14.8%	40.0%	14.0%
Combined ratio	172.4%	114.8%	185.7%	133.3%
Insurance margin	(69.0%)	(17.3%)	(82.9%)	(34.7%)

Key points/variances to FY07

- Floods in UK and NZ weather events impact result (\$40m)
- Unfavourable performance of Advantage quota share (\$22m)

Key actions

- Advantage quota share now in run-off

Outlook

- NEP expected to reduce in line with revised corporate strategy
- Exiting Alba and Diagonal
- Performance expected to improve but may exhibit some volatility given nature of risks underwritten

Investments Reinsurance Capital & Dividend

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INVESTMENT ASSETS

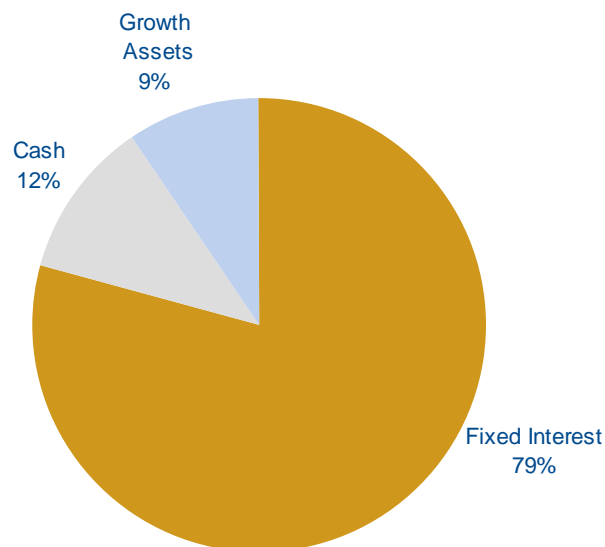
INVESTMENT ASSETS	1H07	2H07	1H08	2H08
AT END OF:	A\$bn	A\$bn	A\$bn	A\$bn
Technical reserves	7.2	8.0	8.2	7.6
Shareholders' funds	2.4	2.4	2.5	2.1
Investment Assets	9.6	10.4	10.7	9.7
Minority interest – Unitholders' funds	0.3	0.3	0.3	0.1
Investments in Joint Ventures and Associates	0.1	0.1	0.1	0.1
Funds at Lloyd's	n/a	0.2	0.2	0.2
Other	2.0	1.1	0.4	0.7
Total investment assets on balance sheet	12.0	12.1	11.7	10.8
Reset Exchangeable Security (RES) funds	0.6	0.6	0.6	0.6
Total investment assets	12.5	12.7	12.3	11.4
Other funds managed on behalf of third parties	2.2	1.9	1.3	0.9

- **The Group's technical reserves have reduced by \$0.4bn over the year and \$0.6bn from 1H08 reflecting:**
 - Both prior periods included reserves for large losses – QBW (June 2007) and Western Sydney (December 2007)
 - Stronger A\$ reducing the proportionate contribution from the UK and NZ
- **Reduced shareholders' funds reflects weak investment markets and the repayment of debt**

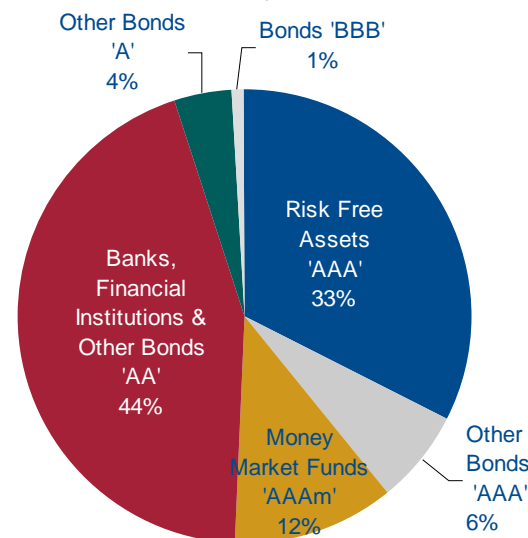
INVESTMENTS

Mix stable and high credit quality maintained

Group Net Investment Asset Exposure - \$10.6bn



FY08 Fixed Interest & Cash - \$9.7bn - Asset Quality



- **Total portfolio value is \$10.6bn**
- **Mix stable relative to FY07 with only 9% in growth assets**
- **95% of Fixed Interest and Cash is rated 'AA' or better**
 - In 2H08 took advantage of credit spreads by increasing exposure to Australian major trading bank debt leading to Banks & FI component increasing to 44% - and locking in higher yields
- **All credit assets performing and meeting interest/principal repayment obligations**
- **As at 30 June 2008 net profit before tax sensitivity to a 10 bpts change in credit spreads was \$11m**

INVESTMENTS

Performance affected by weak markets

PORTFOLIO INCOME INCLUDING DERIVATIVES	2H07		1H08		2H08		FY07		FY08	
	A\$m	Return* (%)	A\$m	Return* (%)	A\$m	Return* (%)	A\$m	Return* (%)	A\$m	Return* (%)
Technical reserves	184	2.2	224	2.6	208	2.7%	360	4.4%	432	5.6%
Shareholders' funds	135	5.4	76	2.6	(121)	(4.5%)	301	13.1%	(45)	(1.5%)
RES Revaluation	-	-	-	-	69	-	-	-	69	-
Total investment income	319	3.1	300	2.6	156	1.0%	661	6.4%	456	4.0%

Returns are stated gross of tax and expenses. Half-year returns have not been annualised.

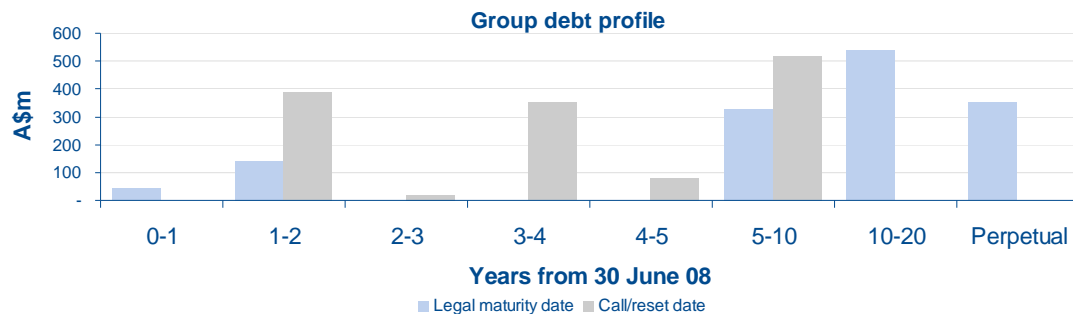
- **In FY08 the Group incurred \$137m of mark-to-market losses from credit spreads**
 - \$122m included in insurance result and \$15m in shareholders' funds
 - Revaluation losses expected to be recovered over life of securities through higher running yields
- **Returns on shareholders' funds adversely impacted by falls in equity and bond markets, exacerbated by some negative active returns**
- **The 2H08 and FY08 income includes the RES option revaluation of \$69m (FY07: nil)**

REINSURANCE PROTECTIONS REDUCE EARNINGS VOLATILITY

- **The upper limit of the Group's catastrophe programme is \$4bn**
- **Maximum event retentions for the Group from 1 July 2008 are:**
 - For a first event: Australia \$118m; United Kingdom \$104m; New Zealand \$94m
 - For a second event: \$75m in Australia, UK and New Zealand
- **Additional cover for accumulated losses below the maximum event retention for calendar 2008 – 92% placed**
 - Covers accumulated losses arising from events larger than \$15m
 - Cover of \$150m xs \$150m counting a maximum of \$50m per event
- **Counterparty credit profile of the main catastrophe programme has more than 70% of the limit provided by parties rated 'AA-' or better by S&P**

BALANCE SHEET REMAINS STRONG

AT END OF:	1H07 A\$m	2H07 A\$m	1H08 A\$m	2H08 A\$m
Cash & Investments % Total Assets	63.1%	55.7%	56.6%	55.3%
Reinsurance Recoveries % Total Assets	2.8%	4.5%	3.5%	3.5%
Debt Leverage	30.4%	29.4%	25.9%	24.4%
Financial Strength Ratings	'AA'	'AA'	'AA'	'AA-'



As at 30 June 2008

- **Very liquid balance sheet**
 - >55% cash and investments
 - > \$1.25bn of cash and cash equivalents
- **Reinsurance recoveries <3.5%**
- **Debt leverage reduced to <25%**
- **Very strong 'AA' category financial strength ratings for key wholly owned insurers**
- **<\$50m of debt maturing in FY09**
- **Capacity to raise \$255m of eligible Lower Tier 2 capital**

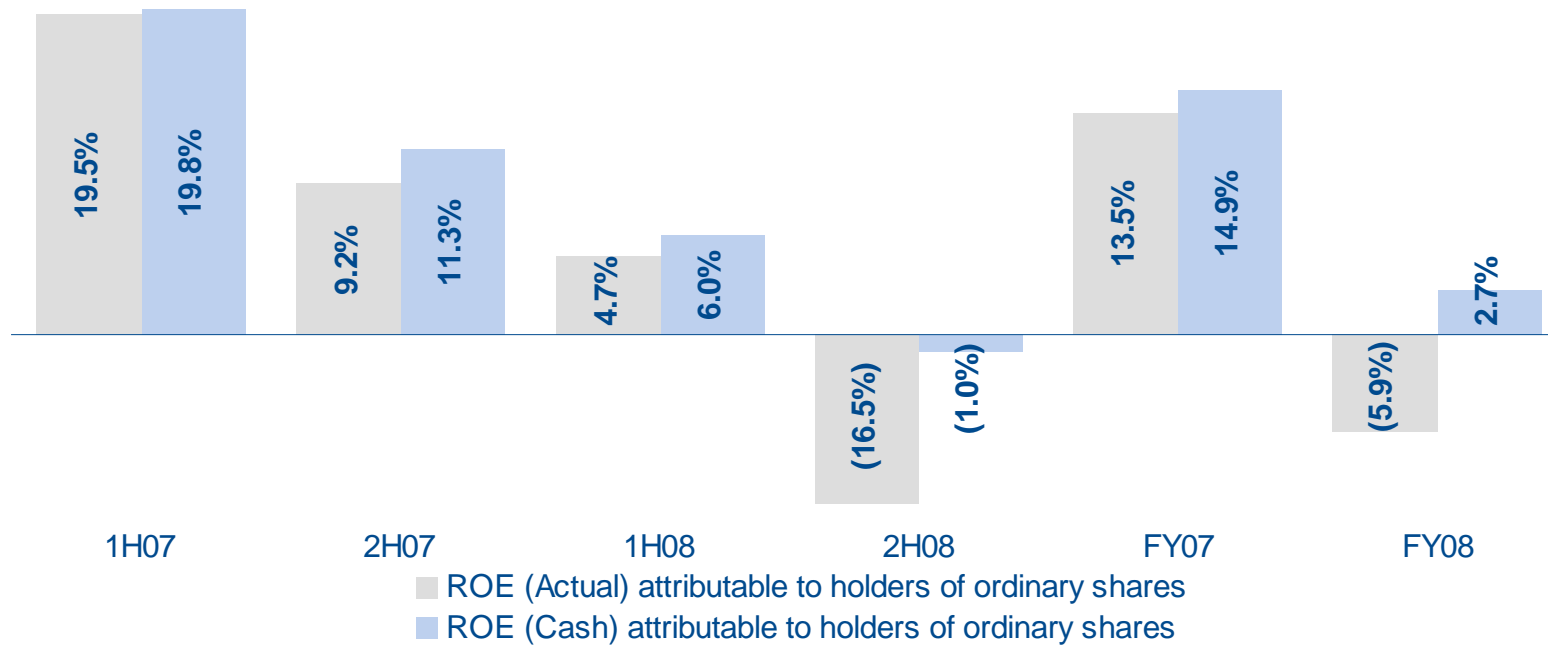
REGULATORY CAPITAL REMAINS STRONG

COVERAGE OF REGULATORY CAPITAL REQUIREMENTS - IAG CONSOLIDATED				
AT END OF:	1H07 A\$m	2H07 A\$m	1H08 A\$m	2H08 A\$m
Tier 1 capital				
Paid-up ordinary shares	4,000	4,361	4,649	4,740
Treasury shares	(40)	(36)	(26)	(15)
Hybrid equity	548	549	550	350
Reserves	11	(4)	3	(7)
Retained earnings	373	372	194	(458)
Excess technical provisions (net of tax)	456	431	396	359
Less Deductions	(2,177)	(3,372)	(3,232)	(2,772)
Total Tier 1 capital	3,171	2,301	2,534	2,197
Tier 2 capital				
Gross subordinated debt	1,215	1,169	923	844
Less Ineligible subordinated debt	-	(18)	-	-
Total Tier 2 capital	1,215	1,151	923	844
Capital base	4,386	3,452	3,457	3,041
Minimum Capital Requirements (MCR):				
Australian general insurance businesses	1,393	1,501	1,407	1,440
International insurance businesses	239	367	353	314
Catastrophe concentration risk	200	200	93	118
Total Minimum Capital Requirements (MCR)	1,832	2,068	1,853	1,872
MCR multiple	2.39x	1.67x	1.87x	1.62x

- **MCR multiple of 1.62x in FY08 vs 1.87x in 1H08 due to:**
 - Buy-back of \$200m of Tier 1 RPS2
 - Increased maximum event retention and asset risk charges
 - Interim dividend in excess of 2H08 income
- **Due to APRA changes to asset risk charges effective 1 July 2008 Group MCR multiple now 1.53x**
- **Exercising 100% of \$550m Reset Exchange Securities (contingent capital) would increase MCR multiple post 1 July 2008 to 1.81x**

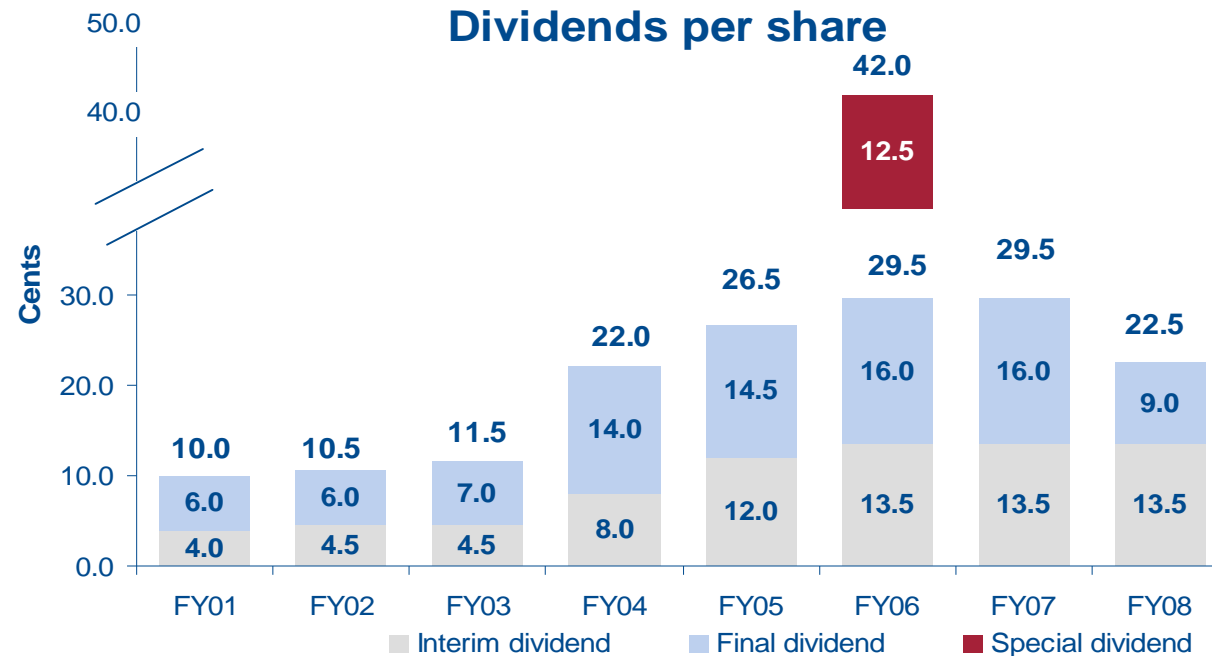
RETURN ON EQUITY

Return on Equity (annualised)



• Target remains cash ROE of at least 1.5x WACC

DIVIDEND HISTORY



- **Final dividend of 9c per share, fully franked**
- **Revised dividend policy**
 - Payout ratio of 50-70% of cash earnings
 - Expect to pay fully franked dividends for foreseeable future
 - DRP to be met by issuing new shares to DRP participants at VWAP (no discount)

Outlook

Michael Wilkins

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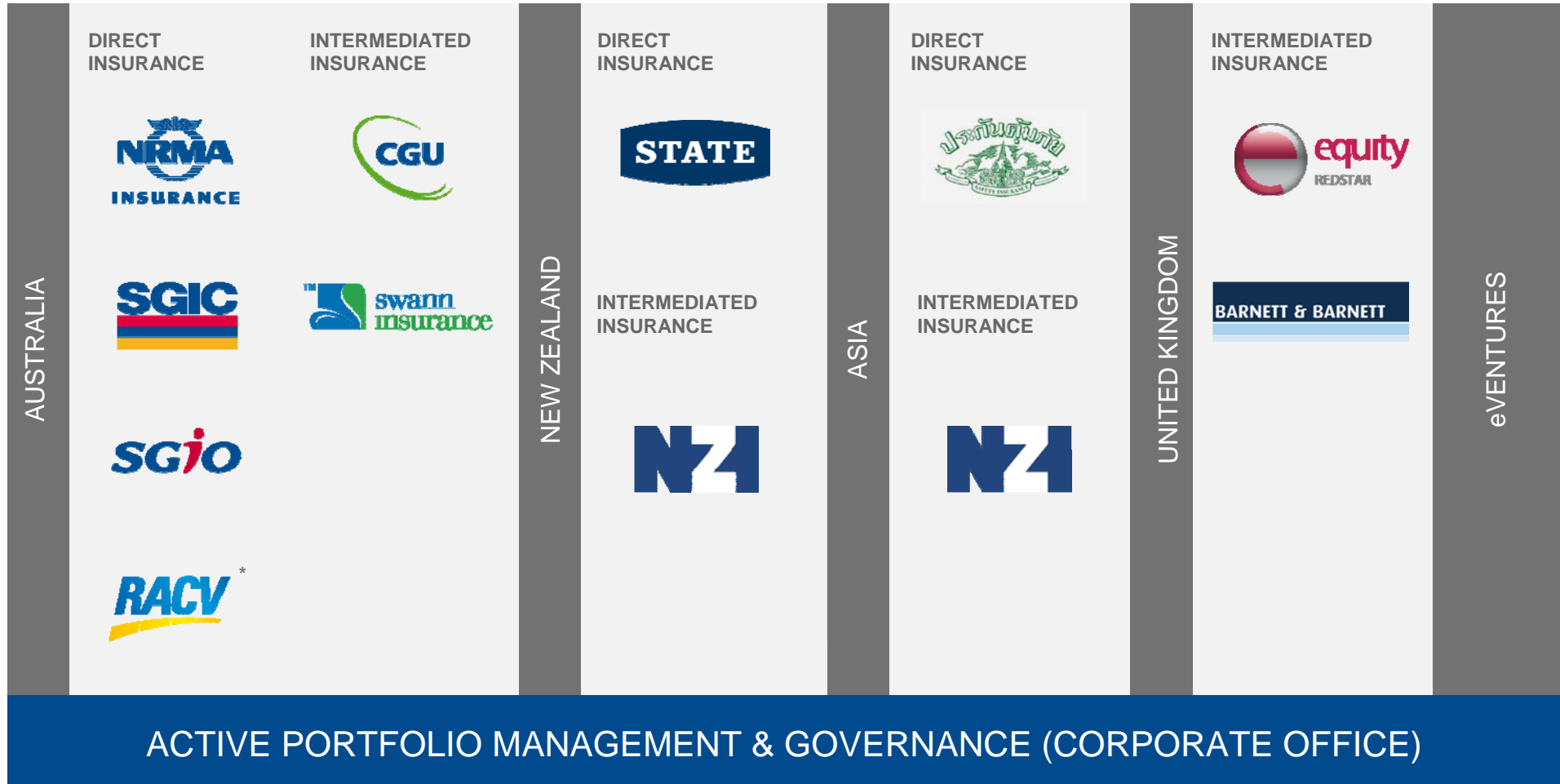


IMPROVING PERFORMANCE

- **Increase discipline and focus**
 - Ongoing rate increases and underwriting discipline
- **Executing revised corporate strategy**
 - Restructure of operating model completed
 - \$130m pa (pre-tax) productivity saves in Australia on track
 - Scale-back of operations in UK underway
 - Pursuing select growth opportunities in Asia
- **Targeting ROE 1.5x WACC and top quartile TSR through the cycle**
- **FY09 outlook***
 - Underlying GWP growth of 3-5% and reported GWP growth of 0-2%
 - FY09 insurance margin of 10%+ (now including corporate expenses)

* Subject to no material movement in foreign exchange rates and no catastrophes or large losses beyond our allowances and no material changes in credit spreads

OUR BUSINESS MODEL AND BRANDS



• RACV is via a distribution relationship and underwriting joint venture with RACV Limited