

# Financial results

## Half-year ended 31 December 2008

Michael Wilkins, Managing Director & Chief Executive Officer

Nicholas Hawkins, Chief Financial Officer

26 February 2009

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All amounts are presented in Australian dollars unless otherwise stated.

1H09 refers to the six months ended 31 December 2008, and FY09 refers to the financial year ending 30 June 2009.

# AGENDA

1

Group results  
Segment analysis

Michael Wilkins

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Reinsurance  
Investments  
Corporate expenses  
Dividend  
Capital management

Nicholas Hawkins

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Outlook

Michael Wilkins

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# Group results and segment analysis

Michael Wilkins

# FIRST HALF IN SUMMARY

## Sound progress made during a year of rebuilding

- **Delivered on strategic initiatives**
  - Moved to a simpler operating model
  - Sale of non-core businesses
  - Strengthened presence in Asia through strategic investments
  - Appointed CEO of Australia Direct
- **Steady improvement in operational performance**
  - Increased average premium rates
  - Improved underwriting discipline
  - Improved expense management
- **Ongoing challenging conditions**
  - Natural perils in excess of allowances
  - Credit spreads widened
  - Significantly weaker investment returns due to equity market conditions
  - Steep decline in interest rates contributed to DAC impairment

# 1H09 FINANCIAL PERFORMANCE

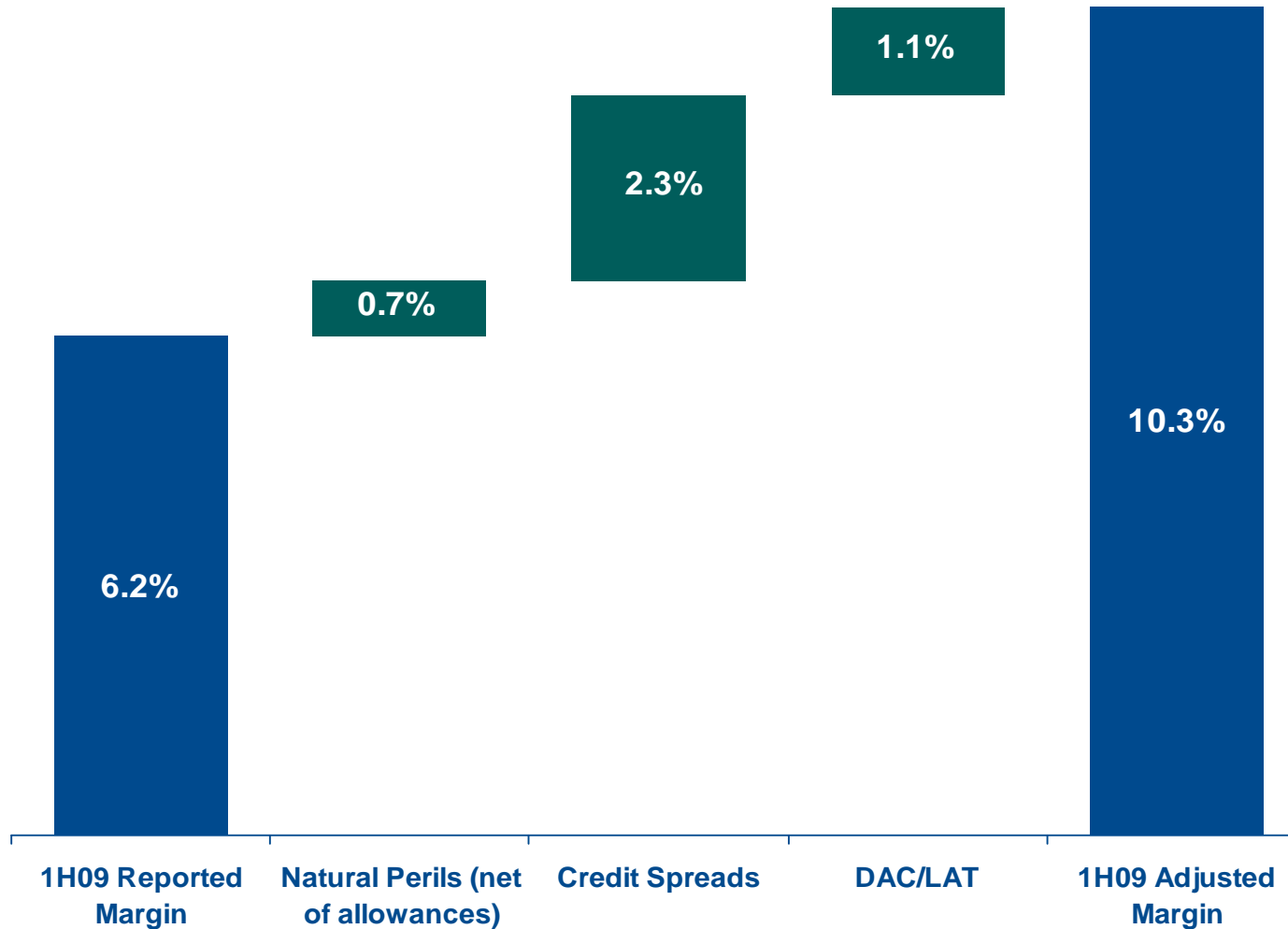
Sound progress made during a year of rebuilding

Financial performance	1H08	2H08	1H09
Gross written premium	\$3,851m	\$3,942m	\$3,922m
Insurance profit	\$190m	\$202m	\$227m
Insurance margin	5.1%	5.6%	6.2%
Profit/(loss) attributable to IAG shareholders	\$110m	\$(371)m	\$4m
ROE	4.7%	(16.5)%	0.2%
Reported EPS	6.1cps	(20.1)cps	0.2cps
Cash EPS	9.6cps	0.2cps	5.7cps
DPS	13.5cps	9.0cps	4.0cps

- GWP growth of 1.8% (underlying GWP growth of 3.9%)
- Improved insurance result of \$227m, representing an insurance margin of 6.2%
- Reduced net profit after tax, reflecting loss on sale of non-core UK mass market distribution operations and investment loss on shareholders' funds due to poor equity market conditions

# 1H09 INSURANCE MARGIN

Adjusted for material external impacts



## SEGMENT RESULTS

Insurance Profit	1H08 A\$m	2H08 A\$m	1H09 A\$m
Australia Direct	106	210	194
Australia Intermediated (CGU)	133	1	(7)
New Zealand	(2)	14	(17)
United Kingdom retained business	6	47	77
United Kingdom discontinued business	(40)	(54)	(23)
Asia	(6)	(5)	9
External reinsurance	(7)	(11)	(6)
<b>Total insurance profit</b>	<b>190</b>	<b>202</b>	<b>227</b>

# AUSTRALIA DIRECT

## Strong GWP growth and improved insurance margin

AUSTRALIA DIRECT FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	1,516	1,580	1,650
Insurance profit/(loss)	106	210	194
Insurance Ratios			
Loss ratio	77.3%	70.5%	88.7%
Expense ratio	22.2%	23.3%	21.5%
Commission ratio	2.6%	1.8%	2.2%
Administration ratio	19.6%	21.5%	19.3%
Combined ratio	99.5%	93.8%	110.2%
Insurance margin	7.2%	14.2%	12.6%

### Key points

- GWP growth of 8.8%
  - Rate increases across the portfolio
  - Modest volume gains
  - Brand relaunch and product initiatives showing promising early signs
- Insurance margin improved to 12.6%
  - Expense savings initiatives
  - Reduced claims from natural perils
  - Lower reserve releases
  - Adverse impact from credit spreads

### Outlook

- Further price increases
- Ongoing roll out of “Unworry” campaign
- Continued focus on expenses and claims costs
- Impact from Victorian fires

# AUSTRALIA INTERMEDIATED

## Rebuilding process progressing well

AUSTRALIA INTERMEDIATED FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	1,167	1,231	1,159
Insurance profit/(loss)	133	1	(7)
Profit/ (loss) from fee based business	32	1	15
<b>Total Divisional Results</b>	<b>165</b>	<b>2</b>	<b>8</b>
Insurance Ratios			
Loss ratio	57.5%	67.5%	87.3%
Expense ratio	36.4%	38.8%	39.9%
Commission ratio	14.9%	16.9%	17.2%
Administration ratio	21.5%	21.9%	22.7%
Combined ratio	93.9%	106.3%	127.2%
Insurance margin	11.8%	0.1%	(0.6%)

## Key points

- GWP down 0.7%
  - Average rate increases of 6%
  - Improved underwriting discipline – volume ceded where price inadequate
- Significant reduction in insurance margin
  - Positive underlying claims cost and margin trends reflect strategic initiatives
  - Lower reserve releases, as expected
  - \$50m DAC impairment

## Outlook

- Encouraging signs around rate increases
- Ongoing rigorous focus on risk selection, pricing, claims cost and expense management
- Impact from Victorian fires

# NEW ZEALAND

## Disappointing first half result

NEW ZEALAND FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	483	491	482
Insurance profit/(loss)	(2)	14	(17)
Profit/(loss) from fee based business	-	-	1
<b>Total Divisional Result</b>	<b>(2)</b>	<b>14</b>	<b>(16)</b>
Insurance Ratios			
Loss ratio	70.7%	66.4%	74.3%
Expense ratio	31.9%	32.9%	34.4%
Commission ratio	10.3%	11.5%	12.6%
Administration ratio	21.6%	21.4%	21.8%
Combined ratio	102.6%	99.3%	108.7%
Insurance margin	(0.4%)	3.2%	(3.9%)

### Key points

- GWP flat
  - Local currency GWP up 4.7%
  - Rate rises in most classes and channels
  - NZI retention rates improving
  - State brand relaunch showing promising signs
- Negative insurance margin
  - First half storms above full year allowance
  - Increased frequency of large losses

### Outlook

- Flow-through effect of rate increases
- Focus on underwriting discipline and tighter cost management
- Difficult economic environment

# UNITED KINGDOM – RETAINED BUSINESS

## Equity Red Star continues to perform well

UK RETAINED BUSINESS FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	417	389	389
Insurance profit/(loss)	6	47	77
Profit/ (loss) from fee based business	(1)	2	(2)
Share of profit/ (loss) from associates	(2)	(1)	-
<b>Total Divisional Result</b>	<b>3</b>	<b>48</b>	<b>75</b>
Insurance Ratios			
Loss ratio	75.9%	62.1%	63.9%
Expense ratio	33.5%	27.8%	29.9%
Commission ratio	15.5%	13.5%	14.7%
Administration ratio	18.0%	14.3%	15.2%
Combined ratio	109.4%	89.9%	93.8%
Insurance margin	1.5%	12.2%	20.2%

## Key points

- GWP down 6.7%
  - Local currency GWP down 2.2%
  - Volume ceded in line with ongoing exit from private motor market
- Improved insurance margin
  - Underlying insurance margin of 13.4% when adjusting for reserve releases (\$26m)
  - Reduced exposure to poorly performing mass private motor market
  - Lower natural peril costs (UK floods in 1H08)

## Outlook

- Continued rate rises
- Ongoing underwriting and cost disciplines
- Difficult economic environment

# UNITED KINGDOM – DIVESTED BUSINESS

## Loss-making non-core businesses divested

UK DISCONTINUED BUSINESS FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	168	151	143
Insurance profit/(loss)	(40)	(54)	(23)
Profit/ (loss) from fee based business	(1)	(1)	(3)
<b>Total Divisional Result</b>	<b>(41)</b>	<b>(55)</b>	<b>(26)</b>
Insurance Ratios			
Loss ratio	106.8%	116.7%	102.6%
Expense ratio	23.5%	23.5%	19.1%
Combined ratio	130.2%	140.2%	121.7%
Insurance margin	(24.7%)	(40.9%)	(20.0%)

### Key points

- GWP down 14.9%
  - Local currency GWP down 10.2%
  - Loss of volume due to substantial rate increases
- Negative margin of 20%
  - Ceased underwriting poorly performing business
- Divestment of mass market business completed in early February 2009

# ASIA

## Medium to long term strategy on track

ASIA FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	89	85	92
Insurance profit/(loss)	(6)	(5)	9
Profit/ (loss) from fee based business	(2)	(2)	(1)
Share of profit/ (loss) from associates	3	(3)	3
<b>Total Divisional Result</b>	<b>(5)</b>	<b>(10)</b>	<b>11</b>
Insurance Ratios			
Loss ratio	62.0%	68.7%	60.0%
Expense ratio	46.5%	43.3%	36.0%
Commission ratio	19.7%	19.4%	20.0%
Administration ratio	26.8%	23.9%	16.0%
Combined ratio	108.5%	112.0%	96.0%
Insurance margin	(8.5%)	(7.5%)	12.0%

## Key points

- GWP growth of 3.4%
  - Local currency GWP up 2.5%
  - Economic conditions impacting growth
- Improved insurance margin
  - Tight cost control
  - Improved claims expense
  - Includes \$8m DAC benefit

## Outlook

- SBI JV in India on track to commence trading in late 2009
- Finalise MAA general insurance acquisition in Malaysia

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## **Reinsurance, investments, corporate expenses, dividends and capital management**

Nicholas Hawkins

# 1H09 RESULTS OVERVIEW

<b>INSURANCE AUSTRALIA GROUP</b>		<b>1H08</b>	<b>2H08</b>	<b>1H09</b>
<b>FINANCIAL PERFORMANCE</b>		<b>A\$m</b>	<b>A\$m</b>	<b>A\$m</b>
	Gross written premium	3,851	3,942	3,922
	Gross earned premium	3,923	3,842	3,931
→	Reinsurance expense	(214)	(256)	(248)
	Net premium revenue	3,709	3,586	3,683
	Net claims expense	(2,644)	(2,511)	(3,088)
	Commission expense	(331)	(326)	(356)
	Underwriting expense	(768)	(755)	(744)
	Underwriting profit/(loss)	(34)	(6)	(505)
→	Investment income on technical reserves	224	208	732
	Insurance profit	190	202	227
→	Net corporate expense	-	(69)	(77)
	Interest	(58)	(43)	(46)
	Profit/(loss) from fee based business/ share from associates	29	(4)	13
→	Investment income on shareholders' funds	76	(52)	(72)
	Profit/(loss) before income tax and amortisation	237	34	45
→	Income tax expense	(78)	(12)	17
	Profit (loss) after income tax (before amortisation)	159	22	62
	Minority interest	(17)	(18)	(28)
	Profit attributable to IAG shareholders (before amortisation)	142	4	34
→	Amortisation	(32)	(375)	(30)
	<b>Profit/(loss) attributable to IAG shareholders</b>	<b>110</b>	<b>(371)</b>	<b>4</b>
→	DPS (cents)	13.50	9.00	4.00
→	MCR multiple - Group	1.87x	1.62x	1.51x

# REINSURANCE PROTECTIONS

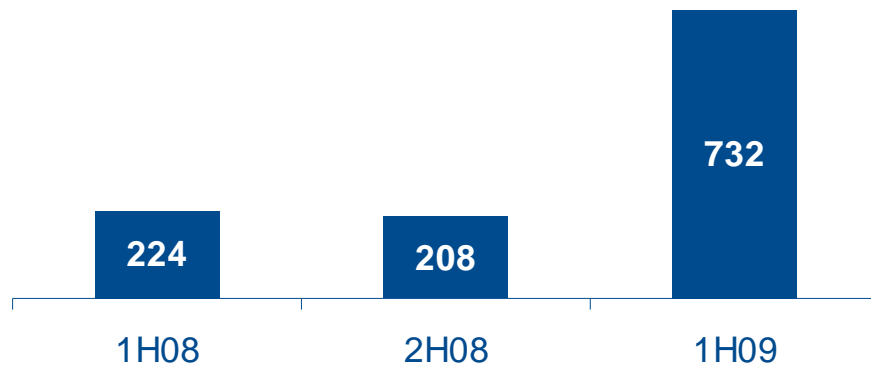
## Reducing earnings volatility

- **The upper limit of the Group's catastrophe programme remains at \$4bn**
- **Maximum event retentions (MER):**
  - For a first event: \$126m in Australia; \$105m in NZ; \$53m in UK
    - Claims cost from Victorian fires expected to reach MER
  - For a second event: \$75m in Australia; \$66m in NZ; \$50m in UK
  - For a third event: \$50m in Australia; \$50m in NZ; \$50m in UK
- **Aggregate cover for multiple events was renewed at 1 January 2009:**
  - Provides \$150m of reinsurance cover for qualifying losses in excess of \$150m
  - Qualifying losses include events larger than \$15m and up to a maximum of \$50m for each event
- **Renewal at 1 January 2009 with similar counterparties to previous year**

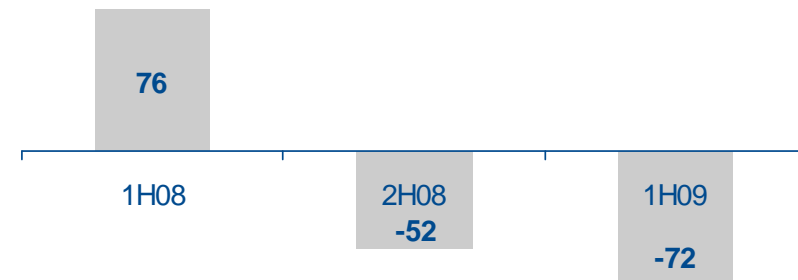
# INVESTMENT RETURNS

Impacted by sharp market movements

Investment returns on technical reserves (\$m)



Investment returns on shareholders' funds (\$m)



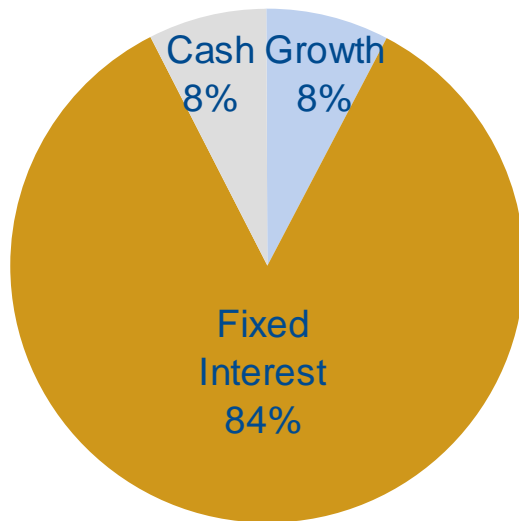
- Higher income in 1H09 reflects:
  - Material capital gains on bonds
  - Partially offset by widening credit spreads

- Returns on shareholders' funds adversely impacted by equity market performance
- Shareholders' funds income includes RES option revaluation of \$25m (1H08: nil)

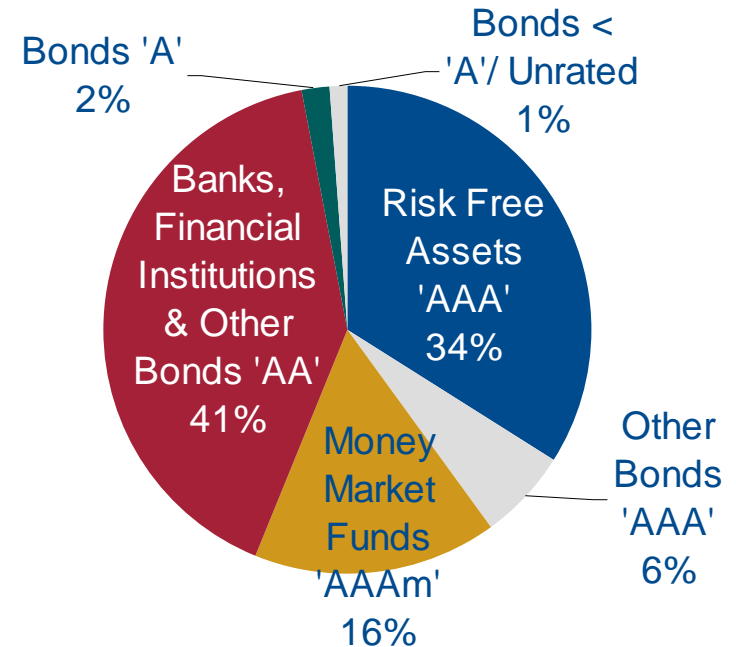
# INVESTMENTS

Mix stable and high credit quality maintained

Group Investment Asset Exposure - \$10.6bn



Group Fixed Interest and Cash - \$9.8bn



- Total portfolio value of \$10.6bn
- Asset mix remains conservative – reduced equity exposure in shareholders’ funds
- 97% of fixed interest and cash rated ‘AA’ or better
- All credit assets performing and meeting interest/ principal repayment obligations

## CORPORATE & OTHER EXPENSES

	1H08 \$m	2H08 \$m	1H09 \$m
Net corporate expenses	-	(69)	(77)
Income tax (expense) / benefit	(78)	(12)	17
Amortisation	(32)	(375)	(30)

- Net corporate expense reflects:
  - A \$115 million loss on sale of non-core mass market operations in the UK, closure of Lloyd's syndicate Alba and underwriter Diagonal, and associated restructuring costs
  - Offset by a \$38m profit on sale of life insurance interest in Malaysian JV
- Income tax benefit due to non-assessable gains
- Amortisation in line with previous guidance

# INTERIM DIVIDEND

In line with revised policy

- **Interim dividend of 4¢ per share**
  - Dividend reinvestment plan remains in place
- **Revised policy for dividends on ordinary shares maintained**
  - 50-70% of reported cash earnings
  - 1H09 dividend equivalent to around 70% of cash earnings
- **Strong franking position**
  - Substantial (over \$500m) franking credits available
  - Capable of fully franking nearly \$1.2bn of dividends
  - Dividends are expected to be fully franked for the foreseeable future

# CAPITAL MANAGEMENT

## Initiatives undertaken to improve mix and provide financial flexibility

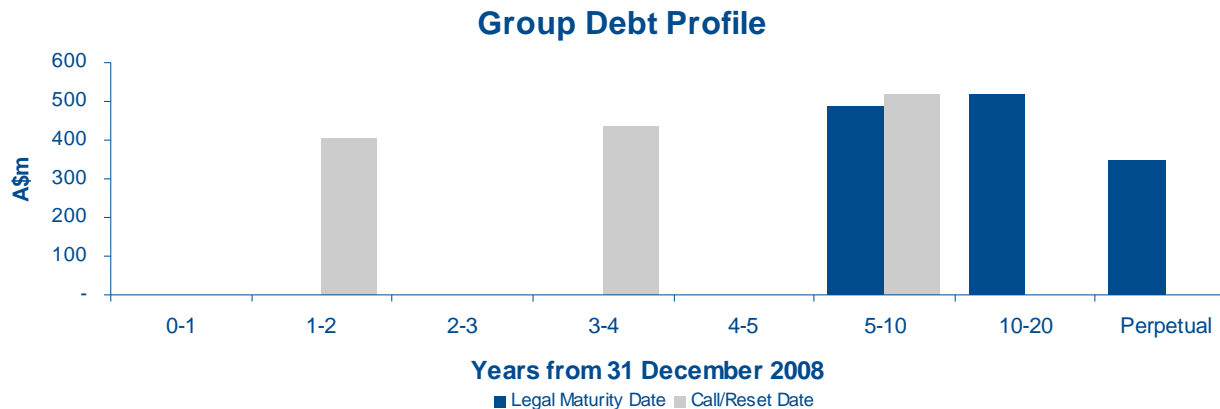
- **Completed institutional placement to raise \$450m, upsized from \$400m**
  - Completed on 18 February 2009
  - Price of \$3 per share
- **Share purchase plan to raise approximately \$100m**
  - To be conducted in March 2009
  - Up to \$5,000 per eligible shareholder
  - Price will be the lesser of \$3 per share (same as institutional placement) or the average market price of IAG shares over a five day period from 30 March to 3 April 2009 inclusive
- **Completed subordinated debt buyback**
  - Repurchased £108 million of sub-debt at 30% discount to face value
  - Group will recognise a pre tax profit of \$70m

# BALANCE SHEET

## Remains strong

Capital Mix	1H08 A\$m	2H08 A\$m	1H09 A\$m	1H09 Proforma <sup>(1)</sup>
Shareholder equity	4,920	4,351	4,135	4,735
Intangibles and goodwill	(2,941)	(2,460)	(2,353)	(2,353)
Tangible shareholder equity	1,979	1,891	1,782	2,382
Interest bearing liabilities	1,723	1,401	1,360	1,121
Total tangible capitalisation	3,702	3,292	3,142	3,503
Debt to total tangible capitalisation	46.5%	42.6%	43.3%	32.0%

<sup>(1)</sup> Incorporates capital management initiatives announced 18 February 2009

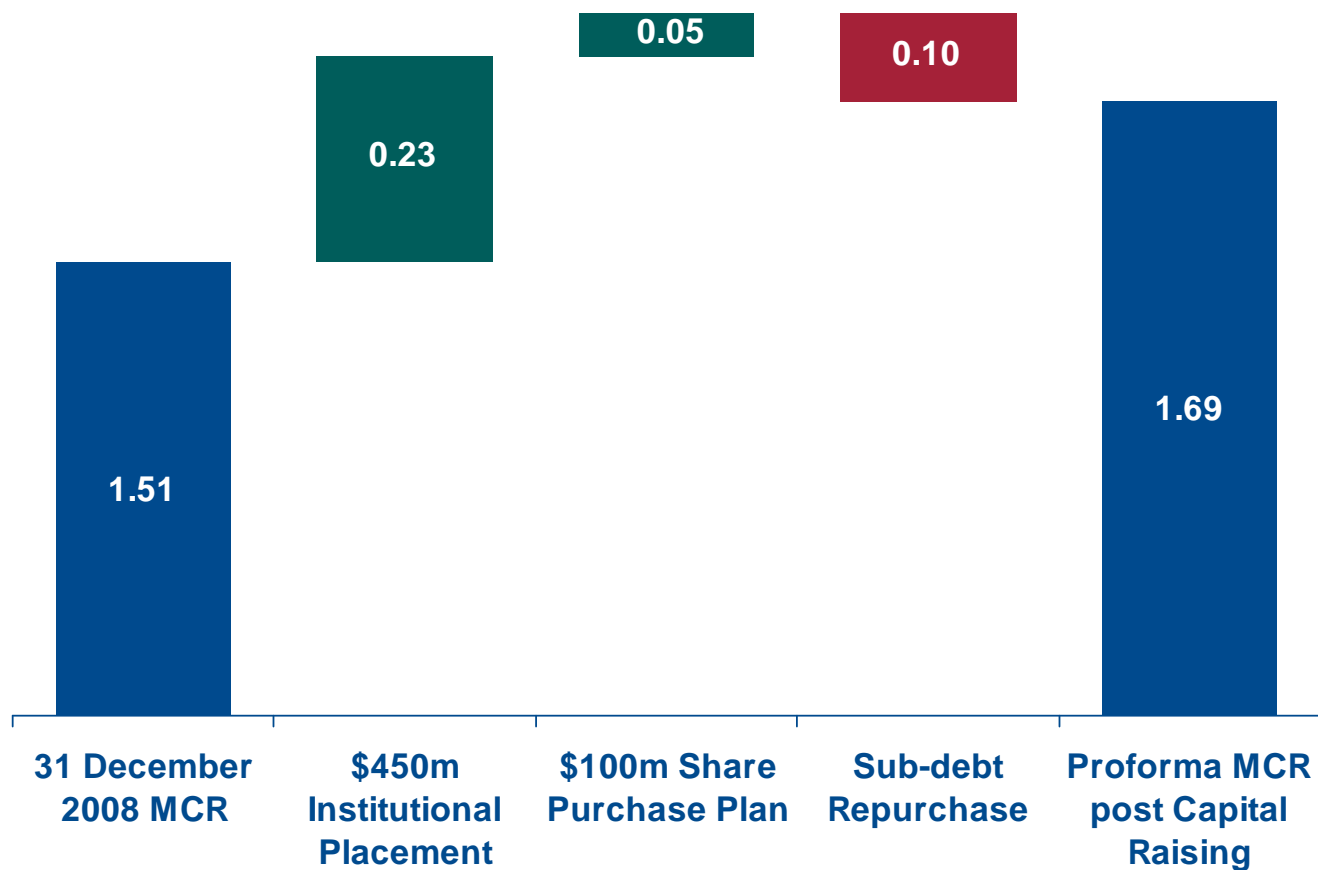


## As at 31 December 2008

- Aiming to have debt to total tangible capitalisation in the range of 30–40% in the near term
- No debt maturing in calendar 2009
- ‘AA’ category financial strength ratings for key wholly owned insurers reaffirmed by S&P

# REGULATORY CAPITAL POSITION

MCR multiple increased on a proforma basis



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## Group outlook

Michael Wilkins

## 2H09 OUTLOOK

Further improvement in operating performance expected

- **2H09 operating performance expected to improve further, driven by:**
  - Full realisation of announced cost savings in Australia, at annualised rate of \$130m (pre tax)
  - Higher premiums including earned affect of rate rises implemented in FY08 and 1H09
  - Favourable portfolio mix changes, including reduced exposure to UK private motor via divestment
- **Priorities are to:**
  - Continue to improve the performance of Australian and New Zealand businesses
  - Progress previously flagged growth opportunities in Asia
  - Drive operational performance, execution and accountability across the Group

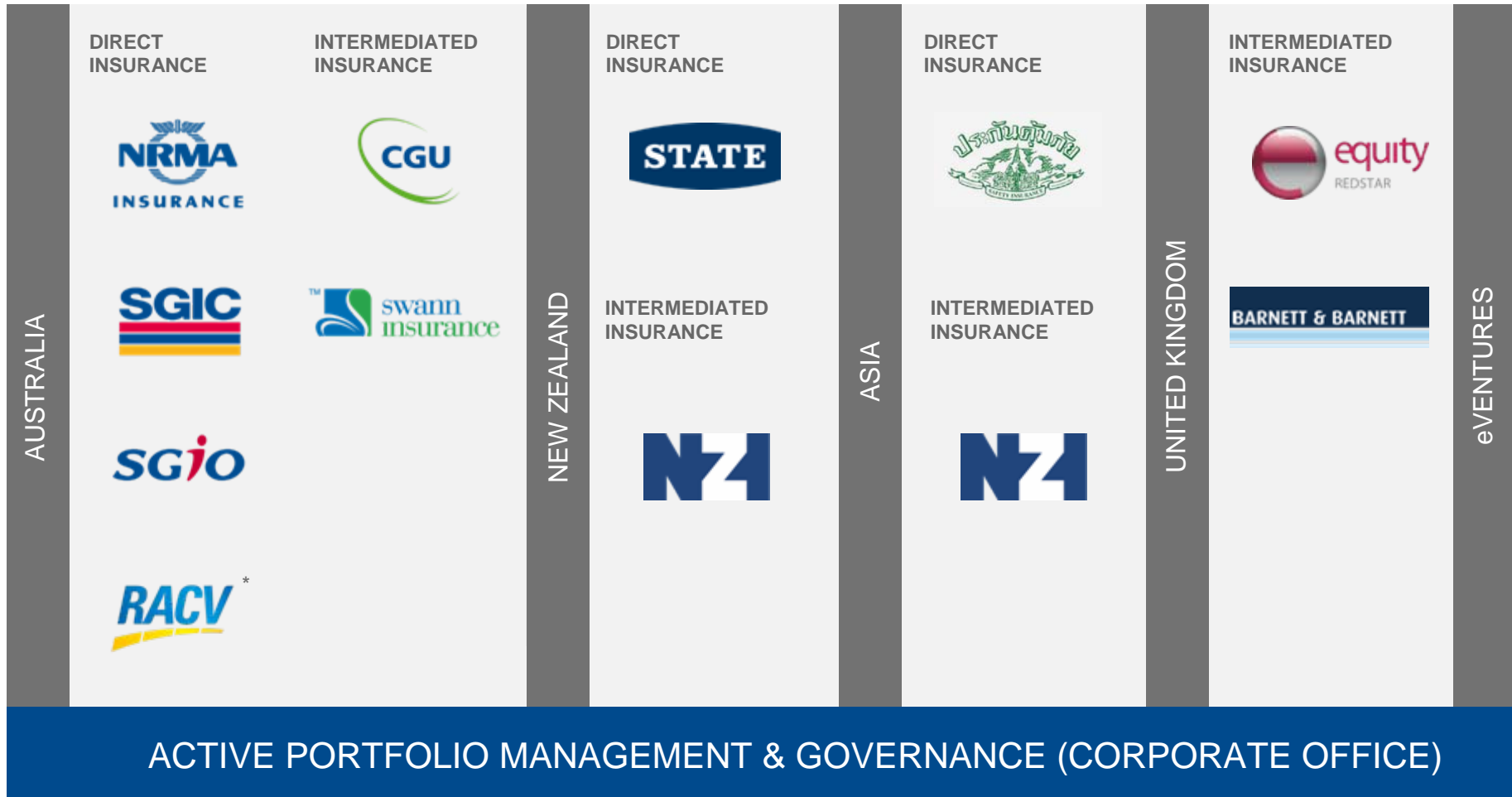
# FY09 OUTLOOK

<b>Group gross written premium growth</b>	<b>FY09<sup>1</sup></b>
<b>Group GWP growth</b> - In line with previous guidance	0-2%
<b>Underlying GWP growth</b> - In line with previous guidance	3-5%
<b>Group insurance margin</b>	<b>FY09<sup>1</sup></b>
<b>Previous guidance</b>	<b>10%+</b>
Less : Credit spreads	(1.2%)
DAC impairment	(0.6%)
Natural perils in excess of allowances	(2.1%) <sup>2</sup>
<b>Guidance adjusted for identified items</b>	<b>6.1%+</b>
<b>Revised guidance</b>	<b>6%+</b>

1 Subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond \$150m in excess of full year allowances (\$314m), no material changes in investment markets including credit spreads and no further LAT adjustments.

2 Includes maximum event retention of \$126m for Victorian bushfires.

# OUR BUSINESS MODEL AND BRANDS



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