

Financial results

Half-year ended 31 December 2007

Michael Hawker, Chief Executive Officer

Michael Wilkins, Chief Operating Officer

George Venardos, Group Chief Financial Officer

29 February 2008

AGENDA

- **Group results** **Michael Hawker**
- **Segment analysis** **Michael Wilkins**
- **Investments, reinsurance & capital** **George Venardos**
- **Group outlook** **Michael Hawker**
- **Questions**

Michael Hawker

Group results

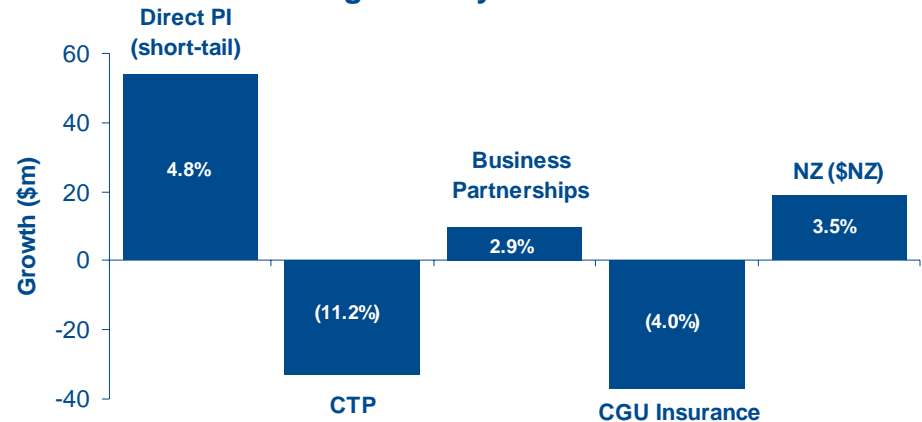
FINANCIAL RESULTS OVERVIEW

- **Net earned premium up 17.6% to \$3,709m (1H07: \$3,155m)**
 - GWP up 15.9% to \$3,851m (1H07: \$3,324m)
- **Insurance profit of \$217m (1H07: \$420m)**
 - Insurance margin of 5.9% (1H07: 13.3%)
 - Unusually high claims from severe events of \$326m (reduced margin by 4.8%)
 - Increased credit spreads impact of \$55m (reduced margin by 1.5%)
 - Increased frequency and costs in some portfolios
- **Investment income on shareholders' funds of \$76m (1H07: \$166m)**
 - Income reduced by \$90m due to lower market returns and reduced exposure to equities
- **NPAT for holders of ordinary shares of \$110m (1H07: \$345m)**
 - EPS of 6.07cps
 - Cash EPS (ie before amortisation) of 7.84 cents
- **ROE and capital**
 - ROE of 4.7% – 6.6% normalised cash ROE
 - Interim dividend maintained at 13.5 cps, fully franked
 - MCR multiple of 1.87x
 - Counterparty credit quality (investments and reinsurance) remains very strong

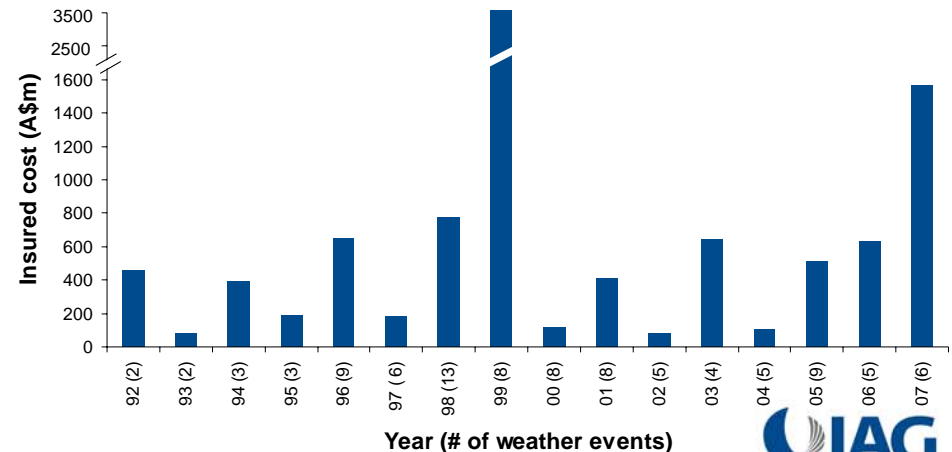
KEY DRIVERS OF GWP AND CLAIMS

- **GWP up 15.9% to \$3,851m (1H07: \$3,324m)**
 - UK contributed \$502m
 - Growing specialist lines & contracting private motor
 - All other businesses growing other than commercial insurance reflecting cycle conditions and CTP (LTCS impact)
- **Loss ratio up 6.9% to 71.3%**
 - Severe event costs of \$326m
 - Soft cycle and claims frequency and costs rising in some portfolios

GWP growth by business vs 1H07



Estimated insured cost of weather events in Australia (1992-2007) (\$m, 2007 values)*

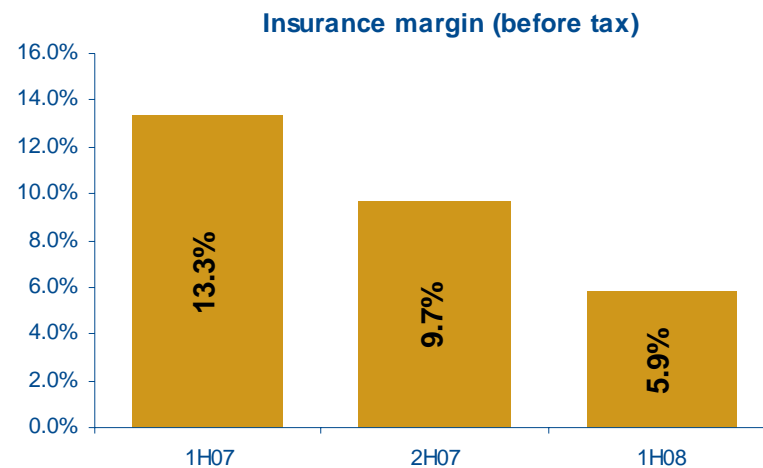
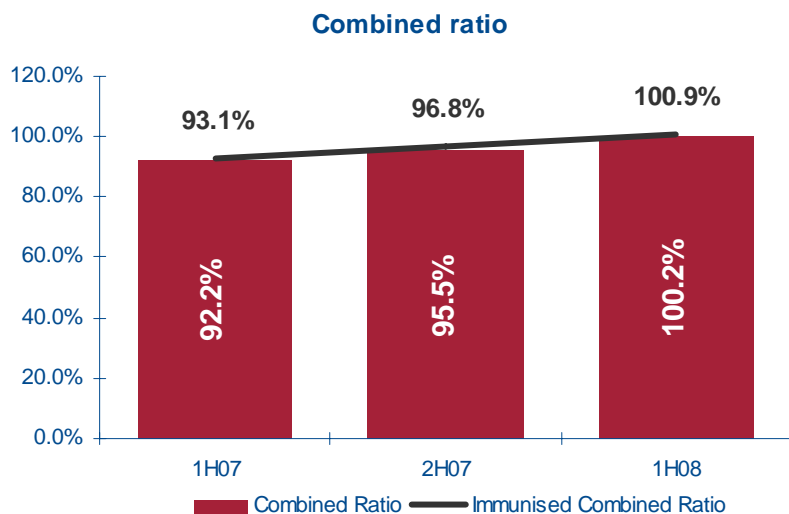
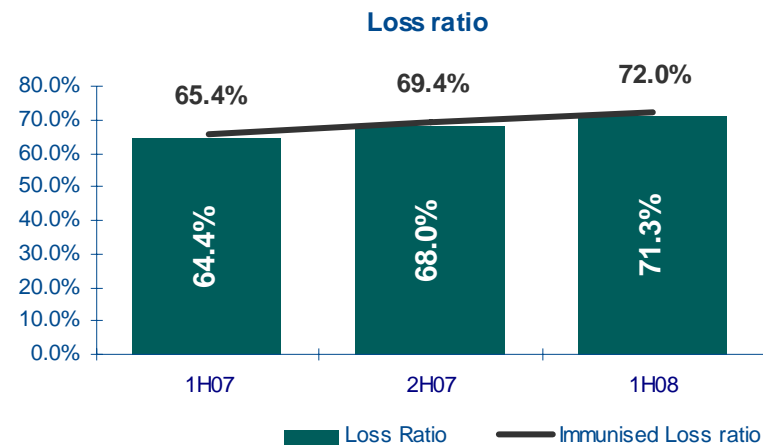
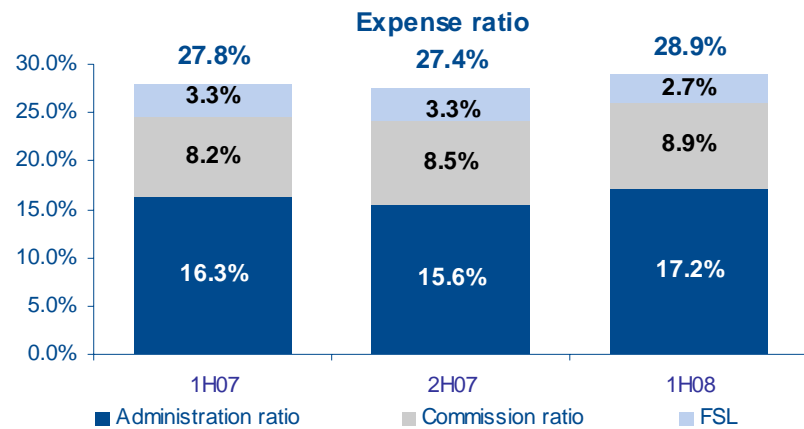


*Source: Deutsche Bank AG, Insurance Council of Australia, Australian Bureau of Statistics. Costs inflated to 2007 values using CPI.

FINANCIAL RESULTS OVERVIEW

FINANCIAL RESULTS/RATIOS	1H07	2H07	1H08
Financial Overview			
Profit attributable to holders of ordinary shares (A\$m)	\$345	\$207	\$110
Reported ROE % (Avg Equity) to holders of ordinary equity pa	19.5%	9.2%	4.7%
Normalised Cash ROE % (Avg Equity) to holders of ordinary equity pa	17.2%	9.7%	6.6%
EBITDA (A\$m)	\$610	\$555	\$341
Investment income on shareholders funds (A\$m)	\$166	\$135	\$76
Net cash flow from operations (A\$m)	\$199	\$202	\$73
Basic EPS (cents)	21.42	11.79	6.07
Cash EPS (cents)	21.90	14.52	7.84
DPS	13.50	16.00	13.50
Group General Insurance			
GWP (A\$m)	\$3,324	\$4,057	\$3,851
Insurance profit (A\$m)	\$420	\$347	\$217
Loss ratio	64.4%	68.0%	71.3%
Expense ratio	27.8%	27.4%	28.9%
Commission ratio	8.2%	8.5%	8.9%
Administration expense ratio	19.6%	18.9%	20.0%
Combined ratio	92.2%	95.5%	100.2%
Insurance margin	13.3%	9.7%	5.9%
Capital strength			
Probability of adequacy of general insurance claims reserves	90.0%	90.0%	90.0%
MCR multiple - Group	2.39x	1.67x	1.87x

KEY INSURANCE RATIOS



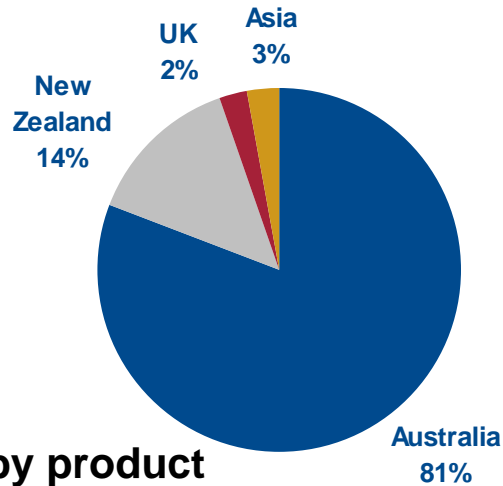
SEGMENT RESULTS

RESULTS BY SEGMENT	1H07	2H07	1H08	1H08 vs 1H07	1H08 vs 2H07
	A\$m	A\$m	A\$m	%	%
Australia	412	324	287	(30.3%)	(11.4%)
New Zealand	39	47	(21)	(153.8%)	(144.7%)
Asia	6	5	1	(83.3%)	(80.0%)
Asia RI	(9)	(20)	(38)	322.2%	90.0%
United Kingdom	2	44	17	750.0%	(61.4%)
Contribution from businesses	450	400	246	(45.3%)	(38.5%)
Investment income on shareholders' funds	166	135	76	(54.2%)	(43.7%)
Other	(81)	(107)	(85)	4.9%	(20.6%)
Net profit before tax	535	428	237	(55.7%)	(44.6%)
Tax expense, minority interests & amortisation	(190)	(221)	(127)	(33.2%)	(42.5%)
Net profit after tax	345	207	110	(68.1%)	(46.9%)

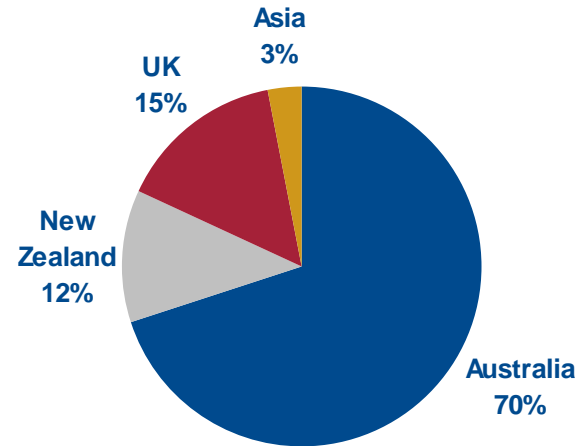
- **Australia: Increased claims cost & frequency, including storms of \$228m (1H07: \$122m), exceeded continued reserve releases in commercial**
- **New Zealand: Performance impacted by weather events and an earthquake**
- **Asia: Lower investment returns and investing for expansion**
- **UK: Synergies on track and underlying trading results improving**
- **Asian reinsurance: \$50m for the UK flood costs**
- **One-off costs from productivity and integration initiatives in NZ and the UK in 1H08 to deliver future benefits, Australian cost base under review**

PORTFOLIO CONTINUES TO DIVERSIFY

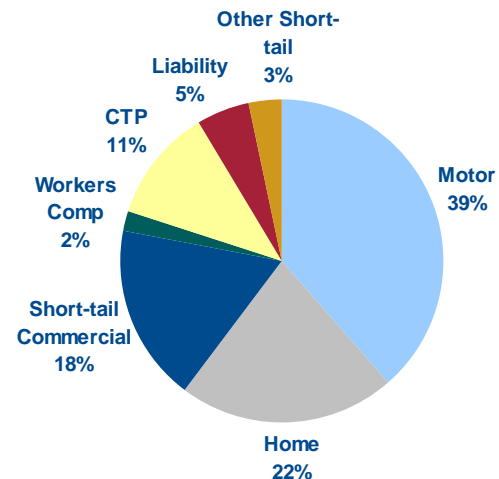
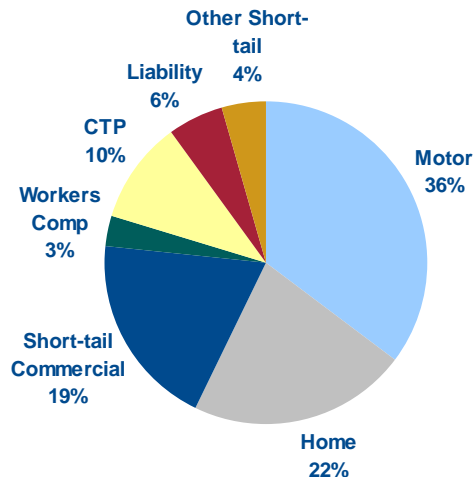
1H07 Portfolio - \$3.32bn
GWP by geography



1H08 Portfolio - \$3.85bn



GWP by product



Michael Wilkins

Segment analysis

AUSTRALIA

Key points on results

AUSTRALIA	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	2,689	2,800	2,683
Gross earned premium	2,750	2,698	2,757
Reinsurance expense	(154)	(168)	(149)
Net premium revenue	2,596	2,530	2,608
Net claims expense	(1,672)	(1,688)	(1,791)
Commission expense	(201)	(206)	(206)
Underwriting expense	(497)	(487)	(516)
Underwriting profit	226	149	95
Investment income on technical reserves	159	137	160
Insurance profit	385	286	255
Profit from fee based business	27	38	32
Total Australia result	412	324	287
Insurance ratios			
Loss ratio	64.4%	66.7%	68.7%
Expense ratio	26.9%	27.4%	27.7%
<i>Commission ratio</i>	7.8%	8.1%	7.9%
<i>Administration ratio</i>	19.1%	19.3%	19.8%
Combined ratio	91.3%	94.1%	96.4%
Insurance margin (before tax)	14.8%	11.3%	9.8%

Key points/variances to 1H07

- **GWP up 1.3% (excluding LTCS):**
 - Growth in Direct Personal Insurance 4.6%
 - CGU Commercial Lines GWP down 5.9%; retention rate strong at 84%
- **Claims up by 7.1%:**
 - Storms up 86.9% to \$228m
 - Frequency up, impacting average claims costs due to demand surge
 - Continued reserve releases
- **Expenses:**
 - Underlying increase in expenses being addressed

DIRECT PERSONAL INSURANCE

Risks in force continue to grow

DIRECT PERSONAL INSURANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	1,419	1,470	1,440
Gross earned premium	1,455	1,433	1,457
Reinsurance expense	(49)	(51)	(54)
Net premium revenue	1,406	1,382	1,403
Net claims expense	(1,018)	(939)	(1,102)
Commission expense	(35)	(37)	(35)
Underwriting expense	(253)	(239)	(257)
Underwriting profit	100	167	9
Investment income on technical reserves	93	92	92
Insurance profit	192	259	101
Insurance ratios			
Loss ratio	72.4%	68.0%	78.5%
Expense ratio	20.5%	20.0%	20.8%
<i>Commission ratio</i>	2.5%	2.7%	2.5%
<i>Administration ratio</i>	18.0%	17.3%	18.3%
Combined ratio	92.9%	87.9%	99.4%
Insurance margin (before tax)	13.7%	18.8%	7.2%

Key observations

- Advertising & price position has increased short-tail GWP by 4.8% on 1H07
- CTP GWP* up 3.6% on 1H07 – holding share in NSW
- Short-tail frequency & average claims cost rising

Key actions

- Rates increasing reflecting inflationary pressures
- Expense base under review

* Adjusted for LTCS

CGU INSURANCE

Profitability supported by reserve releases

CGU INSURANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	925	982	888
Gross earned premium	958	928	949
Reinsurance expense	(86)	(89)	(75)
Net premium revenue	872	838	874
Net claims expense	(468)	(540)	(472)
Commission expense	(105)	(113)	(106)
Underwriting expense	(184)	(182)	(193)
Underwriting profit	116	2	103
Investment income on technical reserves	55	35	55
Insurance profit	171	37	158
Profit from fee based businesses	2	2	8
Total CGU Insurance result	173	39	166
Insurance ratios			
Loss ratio	53.6%	64.4%	54.0%
Expense ratio	33.1%	35.3%	34.2%
<i>Commission ratio</i>	12.1%	13.5%	12.1%
<i>Administration ratio</i>	21.1%	21.8%	22.1%
Combined ratio	86.7%	99.7%	88.2%
Insurance margin (before tax)	19.6%	4.4%	18.1%

Profit from fee based business in 1H08 represents the sale of CGU Premium Funding in July

Key observations

- **Challenging environment - rates remain soft**
- **Executing planned rate rises**
 - Shedding some commercial business while maintaining retention at 84%
 - Growing GWP in broker & agent personal lines
- **Continued strong performance from liability and workers' compensation delivering reserve releases**

Key actions

- **Maintain pricing discipline**
- **Continue customer retention focus**
- **Manage expenses for reduced volume but ensure franchise sustained**

BUSINESS PARTNERSHIPS

Managing portfolio to profitability

BUSINESS PARTNERSHIPS	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	345	349	355
Gross earned premium	336	338	351
Reinsurance expense	(19)	(27)	(20)
Net premium revenue	317	311	331
Net claims expense	(186)	(207)	(217)
Commission expense	(61)	(55)	(65)
Underwriting expense	(60)	(67)	(66)
Underwriting profit	10	(19)	(17)
Investment income on technical reserves	11	11	13
Insurance profit	21	(8)	(4)
Profit from fee based businesses	25	36	24
Total business partners result	46	28	20
Insurance ratios			
Loss ratio	58.8%	66.6%	65.6%
Expense ratio	38.2%	39.4%	39.6%
<i>Commission ratio</i>	19.1%	17.8%	19.6%
<i>Administration ratio</i>	19.0%	21.6%	19.9%
Combined ratio	96.9%	106.0%	105.1%
Insurance margin (before tax)	6.6%	(2.6%)	(1.2%)

Key observations

- Pricing adequacy improved but more rate increases to come
- Improving strategic approach to partners to improve outcomes
- Continued bonuses from fee-based schemes

Key actions

- Further pricing discipline
- Continued effort to ensure partnership arrangements provide better alignment of interests
- Manage costs in fee-based in context of expectation of minimal further prior year bonuses

INTERNATIONAL BUSINESSES

Key points on results

INTERNATIONAL	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	635	1,257	1,168
Gross earned premium	619	1,140	1,166
Reinsurance expense	(60)	(82)	(65)
Net premium revenue	559	1,058	1,101
Net claims expense	(361)	(753)	(853)
Commission expense	(57)	(100)	(125)
Underwriting expense	(122)	(191)	(225)
Underwriting profit	18	14	(102)
Investment income on technical reserves	17	47	64
Insurance profit	35	61	(38)
Share of profit from associates	3	2	1
Fee based business	(1)	14	(4)
Corporate expenses	(2)	(2)	(2)
Total international result	35	75	(43)
Insurance ratios			
Loss ratio	64.6%	71.2%	77.5%
Expense ratio	32.1%	27.5%	31.8%
<i>Commission ratio</i>	10.2%	9.5%	11.4%
<i>Administration ratio</i>	21.9%	18.1%	20.4%
Combined ratio	96.7%	98.7%	109.3%
Insurance margin (before tax)	6.3%	5.8%	(3.5%)

Key points / variances to 1H07

- International now represents 30% of Group GWP (1H07:19%)
- GWP increased on 1H07 mainly due to UK expansion
- Severe event costs of \$98m (1H07:\$3m)
- Cost initiatives under way in UK and NZ
 - \$14m expensed in 1H08
 - UK on track to have £25m (post-tax) in run rate by 30 June 2008
 - New Zealand changes implemented expected to improve margin by 1 – 2% in run rate

UNITED KINGDOM

Positioning for future value delivery

UNITED KINGDOM	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	83	642	585
Gross earned premium	65	560	576
Reinsurance expense	(3)	(30)	(46)
Net premium revenue	62	530	530
Net claims expense	(55)	(396)	(397)
Commission expense	-	(38)	(57)
Underwriting expense	(9)	(97)	(107)
Underwriting profit	(2)	(1)	(31)
Investment income on technical reserves	3	30	52
Insurance profit	1	29	21
Share of profit from associates	-	(2)	(2)
Fee based business	1	17	(2)
Total United Kingdom result	2	44	17
Insurance ratios			
Loss ratio	88.7%	74.7%	74.9%
Expense ratio	14.5%	25.5%	30.9%
<i>Commission ratio</i>	<i>0.0%</i>	<i>7.2%</i>	<i>10.8%</i>
<i>Administration ratio</i>	<i>14.5%</i>	<i>18.3%</i>	<i>20.2%</i>
Combined ratio	103.2%	100.2%	105.8%
Insurance margin (before tax)	1.6%	5.5%	4.0%

Key observations

- **Market challenging but improving**
 - Paid private motor increases of 5 – 7% in 1H08
- **Portfolio reconfigured**
 - Equity meeting plan
 - Advantage showing early signs of improvement
- **Synergy delivery on track**

Key actions

- **Ongoing rating actions into strengthening cycle**
- **Strategic review of retail distribution model & positioning**

NEW ZEALAND

Performance adversely affected by weather

NEW ZEALAND	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	460	508	482
Gross earned premium	470	483	489
Reinsurance expense	(42)	(51)	(54)
Net premium revenue	428	432	435
Net claims expense	(258)	(272)	(322)
Commission expense	(45)	(47)	(47)
Underwriting expense	(98)	(76)	(98)
Underwriting profit	27	37	(32)
Investment income on technical reserves	12	10	11
Insurance profit	39	47	(21)
Insurance ratios			
Loss ratio	60.3%	63.0%	74.0%
Expense ratio	33.4%	28.5%	33.3%
<i>Commission ratio</i>	10.5%	10.9%	10.8%
<i>Administration ratio</i>	22.9%	17.6%	22.5%
Combined ratio	93.7%	91.4%	107.4%
Insurance margin (before tax)	9.0%	10.9%	(4.8%)

Key observations

- GWP increased 3.5% in NZ\$
- Successful in leading the market in rate increases in commercial
- Storms & earthquakes of \$40m (NZ\$46m) in 1H08
- More large losses and home profitability still an issue
- Productivity improvements implemented

Key actions

- Complete transition to new direct personal lines system
- Maintain growth momentum and rate leadership
- State brand relaunch

ASIA

Investing for growth

ASIA	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	79	89	89
Gross earned premium	80	87	88
Reinsurance expense	(17)	(20)	(21)
Net premium revenue	63	67	67
Net claims expense	(41)	(44)	(44)
Commission expense	(11)	(13)	(13)
Underwriting expense	(9)	(11)	(11)
Underwriting profit	2	(1)	(1)
Investment income on technical reserves	3	5	1
Insurance profit	5	4	-
Share of profit from associates	3	4	3
Fee based business	(2)	(3)	(2)
Corporate expenses	(2)	(2)	(2)
Total Asian operations result	4	3	(1)
Insurance ratios			
Loss ratio	65.1%	65.7%	65.7%
Expense ratio	31.7%	35.8%	35.8%
<i>Commission ratio</i>	17.4%	19.4%	19.4%
<i>Administration ratio</i>	14.3%	16.4%	16.4%
Combined ratio	96.8%	101.5%	101.5%
Insurance margin (before tax)	7.9%	6.0%	0.0%

Key observations

- Thai market conditions remain challenging but IAG GWP up 6% in local currency terms
- AmAssurance performing well – investing in, and delivering strong growth

Key actions

- Goal to complete move to 49% of AmAssurance general insurance by June 2008
- Continue to enhance outcomes in existing investments through ongoing capability transfer
- Continue to pursue entry into India and China

ASIAN REINSURANCE

Impacted by UK floods

ASIAN REINSURANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium (3rd party premium income)	13	18	12
Gross earned premium	4	10	13
Reinsurance expense (net of IAG Group premium income)	2	19	56
Net premium revenue	6	29	69
Net claims expense	(7)	(41)	(90)
Commission expense	(1)	(2)	(8)
Underwriting expense	(7)	(7)	(9)
Underwriting profit	(9)	(21)	(38)
Investment income on technical reserves	-	1	-
Insurance profit	(9)	(20)	(38)
Insurance ratios			
Loss ratio	116.7%	141.4%	130.4%
Expense ratio	133.3%	31.0%	24.6%
<i>Commission ratio</i>	16.6%	6.9%	11.6%
<i>Administration ratio</i>	116.7%	24.1%	13.0%
Combined ratio	250.0%	172.4%	155.1%
Insurance margin (before tax)	(150.0%)	(69.0%)	(55.1%)

Key observations

- **Adverse developments**
 - Floods in UK cost this business \$50m
- **Alba affected by slower than anticipated Asian expansion and soft commercial cycle**

Key actions

- **Continue to work on Alba development and positioning**

George Venardos

Investments

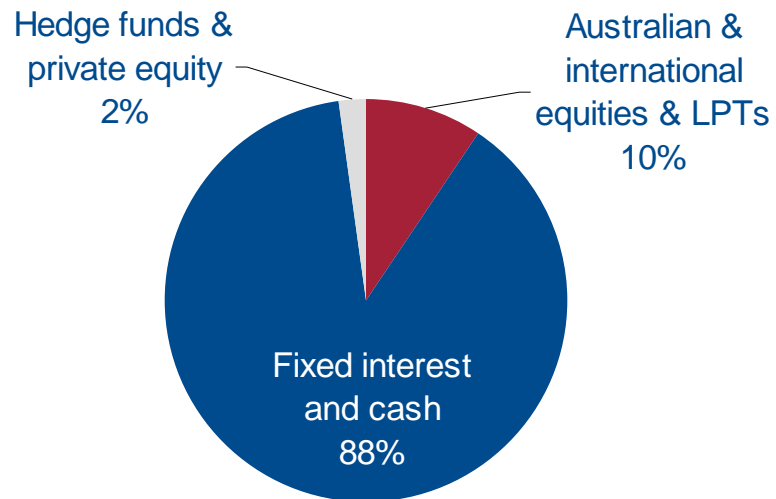
Reinsurance

Capital & dividends

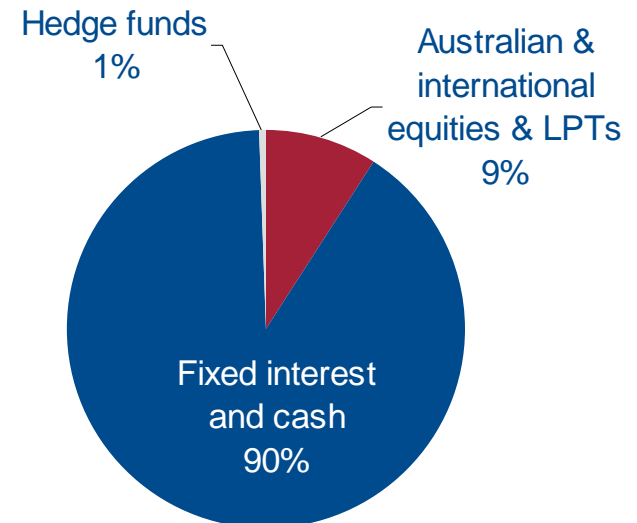
INVESTMENTS

Group asset mix

30 June 2007
asset mix



31 December 2007
asset mix

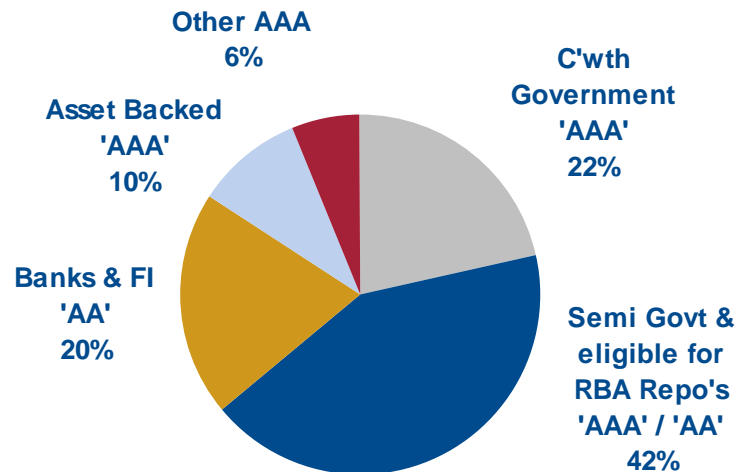


- **Group asset mix has remained stable in 1H08**

INVESTMENTS

Cash and fixed interest asset quality

Fixed interest asset quality as at 31 December 2007 for Australia & New Zealand



- **High quality and high liquidity**
- **Portfolio credit quality remains very strong and underlying these ratings, there is good diversity amongst counterparties and industry exposures**
- **UK fixed interest portfolio of \$0.7bn**
 - \$0.6bn invested in AAA rated UK Government securities
 - Remainder in 'A-' very short dated securities
- **\$1.6bn in cash with an 'A-1+' rating**

INVESTMENTS

Performance

PORTFOLIO INCOME (PRE-TAX) AND INCL. DERIVATIVES	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Technical reserves	176	184	224
Shareholders' funds	166	135	76
Total investment income	342	319	300

- **Impact of increased credit market spreads reduced the 1H08 insurance profit by \$55m**
- **Net profit before tax sensitivity to a 10 basis points increase in credit spreads -\$12m as at 31 December 2007**
- **Higher running yields**
- **Shareholders' funds income reflects lower market returns and reduced exposure to equities**

REINSURANCE PROTECTIONS STRENGTHENED

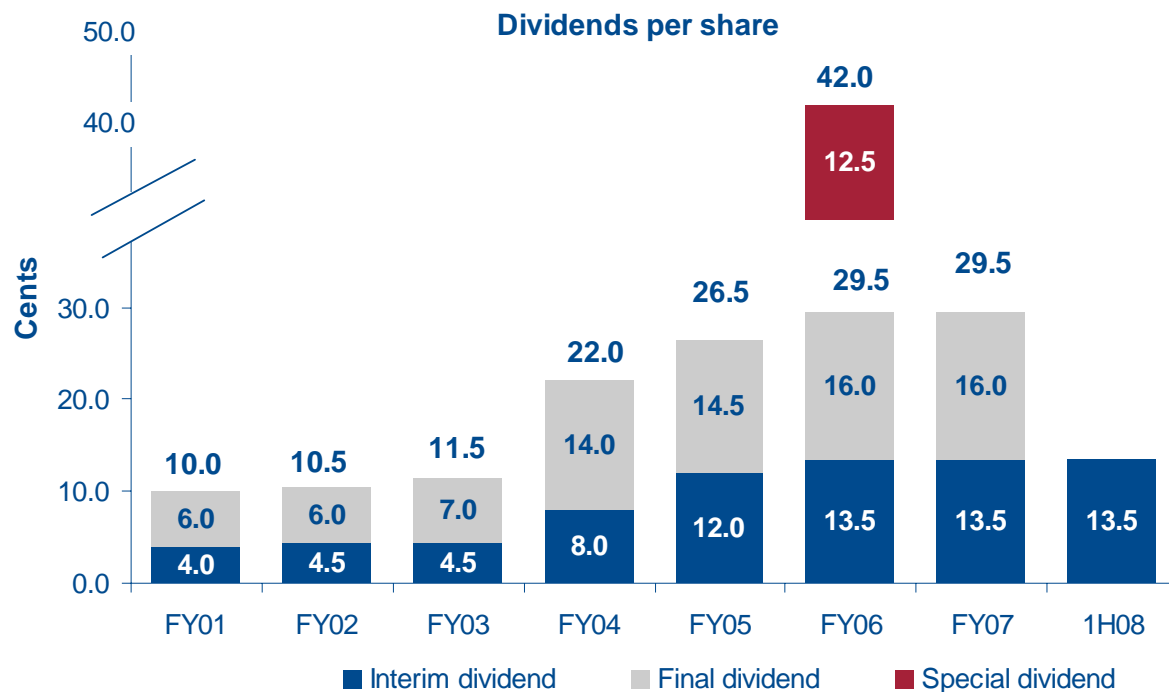
- **Upper limit of the catastrophe programme increased to \$4bn**
- **Group has purchased covers which reduce the maximum event retention of the Group until 30 June 2008 to**
 - Australia \$93m; New Zealand \$81m; and United Kingdom \$79m
 - Second event MER for Australia of \$50m; New Zealand \$44m; and United Kingdom \$62m
 - Increase by \$25m each on expiry of one treaty on 30 June 2008
- **Additional cover for accumulated losses below the maximum event retention for calendar 2008 – 82% placed**
 - Covers accumulated losses arising from events larger than \$15m
 - Cover of \$150m xs \$150m counting a maximum of \$50m per event
- **12% increase in aggregates**
- **New programme placed for only 4% in additional premiums**

REGULATORY CAPITAL POSITION STRENGTHENED

COVERAGE OF REGULATORY CAPITAL REQUIREMENTS A\$m	IAG Consolidated		
	1H07	2H07	1H08
Tier 1 capital			
Paid-up ordinary shares	4,000	4,361	4,649
Treasury shares	(40)	(36)	(26)
Hybrid equity	548	549	550
Reserves	11	(4)	3
Retained earnings	373	372	194
Excess technical provisions (net of tax)	456	431	396
Less: deductions	(2,177)	(3,372)	(3,232)
Total Tier 1 capital	3,171	2,301	2,534
Tier 2 capital			
Gross subordinated debt	1,215	1,169	923
less: ineligible subordinated debt	-	(18)	-
Total Tier 2 capital	1,215	1,151	923
Capital base	4,386	3,452	3,457
Minimum capital requirements (MCR):			
Australian general insurance businesses	1,393	1,501	1,407
International insurance businesses MCR	239	367	353
Catastrophe concentration risk	200	200	93
Total Minimum capital requirements (MCR)	1,832	2,068	1,853
MCR multiple	2.39x	1.67x	1.87x

- **MCR multiple increased to 1.87x (June 2007: 1.67x) due to:**
 - Final FY07 dividend underwritten
 - Reduced maximum event retention falling from \$200m to \$93m
 - Reduced asset charges
 - Reduced outstanding claims (June 2007 storms)
- **Approximately \$70m of the Group's debt obligations as of today mature in 2008**
- **\$200m of ASX listed preference shares have a Reset Date on 15 June 2008 – reviewing options**
- **Exercising 100% of \$550m Reset Exchange Securities (contingent capital) would increase MCR multiple to 2.17x**

DIVIDEND POSITION



- **Interim dividend maintained at 13.5c per share**
- **Issuing new shares to DRP participants with 1.5% discount reflecting**
 - Recent severe weather events
 - More pessimistic outlook for global economy and investment markets

Michael Hawker

Outlook

UPDATED FY08 TRADING OUTLOOK

	October 2007 briefing FY08 guidance		1H08 results announcement FY08 guidance	
	GWP growth	Insurance margin	GWP growth	Insurance margin
Direct Personal Insurance	2 - 4%	17 - 20%	2 - 4%	12 - 14%
Business Partnerships	4 - 6%	6 - 8%	4 - 6%	1 - 3%
CGU Commercial Lines	(4 - 2)%	14 - 17%	(5 - 3)%	15 - 17%
CGU Broker & Agent	(3 - 1)%	(5 - 3)%	(3 - 1)%	(6 - 4)%
New Zealand	5 - 7%	4 - 6%	1 - 3%	2 - 4%
Asia	9 - 11%	2 - 4%	6 - 8%	1 - 3%
United Kingdom	54 - 57%	5 - 7%	57 - 60%	5 - 7%
Asian Reinsurance	not material	not material	not material	(22 - 20)%
IAG Group	7 - 9%	11 - 13%	7 - 9%	9 - 11%

- **Full year Group outlook unchanged from previous guidance of GWP growth of 7 – 9% and an insurance margin of 9 – 11% but recent events mean we expect to be at the low end of the guidance for both GWP and margin**
 - With 5.9% in 1H08, this implies an insurance margin of at least 12% in 2H08
- **Subject to not experiencing catastrophes or large losses outside our allowances nor losses from material movements in currency or investment markets in 2H08**

IN SUMMARY

- **1H08 was a very challenging period**
- **Conservatively positioned balance sheet**
 - MCR multiple of 1.87x
 - High quality, liquid investment portfolio
 - Increased reinsurance protections for calendar 2008
 - Reduced net exposure to further major weather events
- **Interim dividend maintained at 13.5 cents per share, fully franked**
- **Continue to pursue offshore expansion in a measured way**
- **Steps taken to improve the run rate of profits through both increased premiums and managing expenses**
 - Supported by strengthened management team
 - Leading to improvements in 2H08 and FY09

Questions