

FINANCIAL RESULTS FULL YEAR ENDED 30 JUNE 2011

Mike Wilkins
Managing Director and Chief Executive Officer

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25 August 2011



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All amounts are presented in Australian dollars unless otherwise stated. 1H10 refers to the six months ended 31 December 2009, 1H11 to the six months ended 31 December 2010 and 2H11 to the six months ended 30 June 2011. FY10 refers to the year ended 30 June 2010, FY11 to the year ended 30 June 2011 and FY12 to the year ended 30 June 2012.



1 GROUP RESULTS

Mike Wilkins
Managing Director and
Chief Executive Officer



THE YEAR IN SUMMARY

SOLID PERFORMANCE IN CHALLENGING CONDITIONS

Key financial metrics improved

- Underlying GWP growth of 4.8% (2H11: 6.3%)
- Improved insurance profit of \$660m (FY10: \$493m) and insurance margin of 9.1% (FY10: 7.0%)
- Cash return on equity of 11.1% (FY10: 8.3%)
- Net profit after tax of \$250m (FY10: \$91m)
- Final dividend of 7cps, fully franked, giving full year dividend of 16cps (FY10: 13cps)

Outcome influenced by:

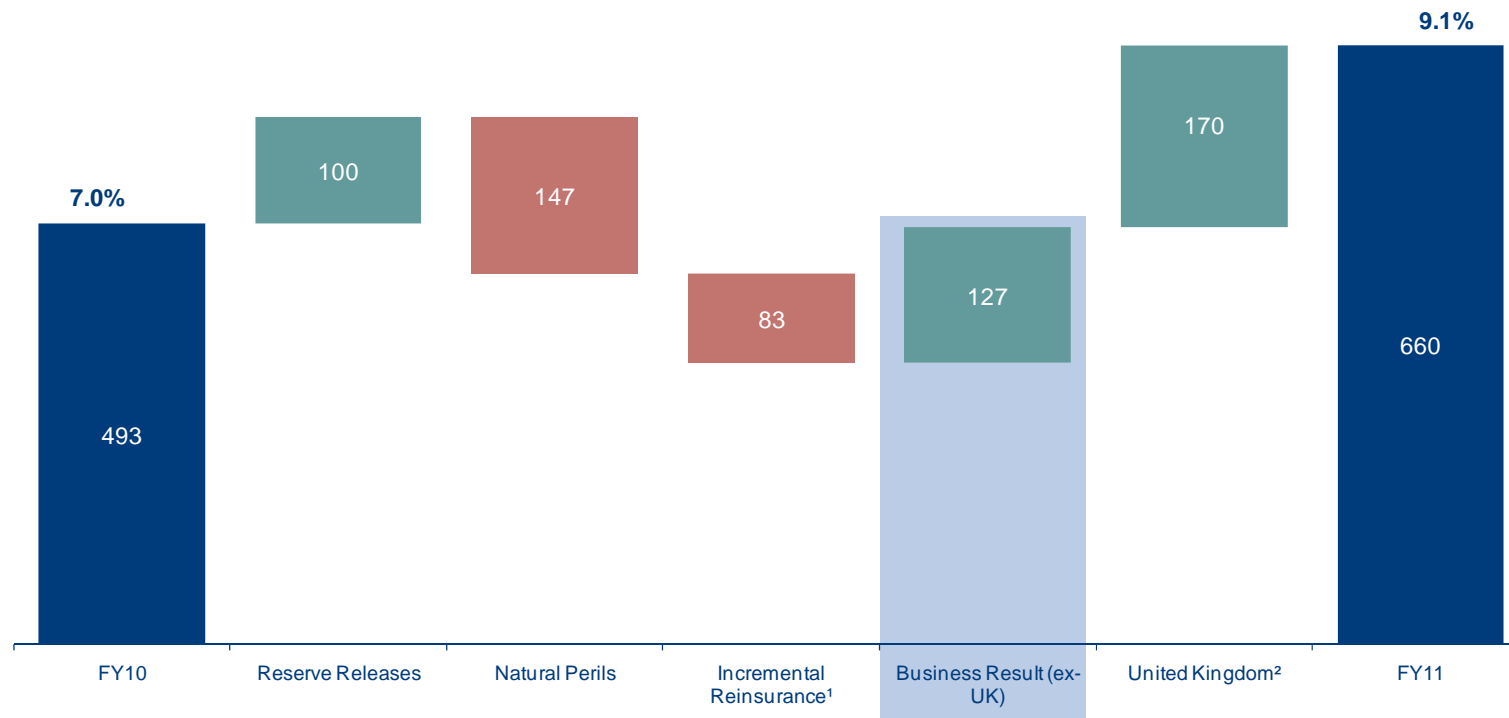
- Net natural peril claim costs of \$610m (FY10: \$463m), compared to allowances of \$435m
- Flow-on effect to reinsurance expense of \$83m including reinstatement costs
- Higher than expected reserve releases of \$328m (FY10: \$228m)
- Greater than originally anticipated bodily injury claim inflation in UK

Solid platform established

- Strong underlying performance across Australia and New Zealand, combined margin of 12.9%
- Reduced 2H11 loss in UK, as remediation actions gather traction
- Good progress in Asia – expanded launch of Indian JV, investment in China

FY11 INSURANCE MARGIN

FURTHER IMPROVEMENT IN UNDERLYING PERFORMANCE



1. Incremental reinsurance costs in FY11 include reinstatement costs and accelerated amortisation.

2. United Kingdom insurance margin movement excludes yield and natural peril movements, as well as reserve strengthening in 1H10 (\$25m) and FY11 (\$20m).



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DIVISIONAL PERFORMANCE

Mike Wilkins
Managing Director and
Chief Executive Officer

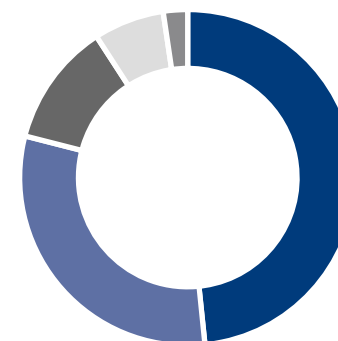


DIVISIONAL RESULTS

SOLID PERFORMANCE IN HOME MARKETS

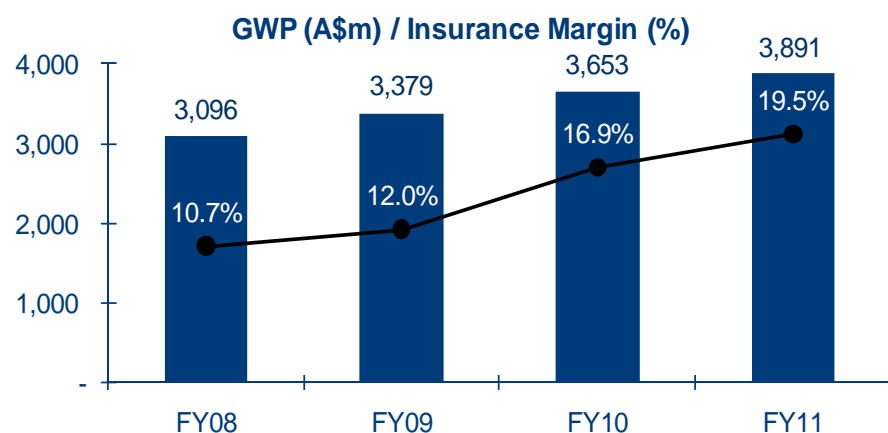
Insurance Profit (A\$m) and Margin (%)	FY10		FY11	
	A\$m	%	A\$m	%
Australia Direct	569	16.9	702	19.5
Australia Intermediated	139	6.6	140	6.5
New Zealand	131	14.7	3	0.4
Total Australia and New Zealand	839	13.2	845	12.9
UK	(355)	(65.5)	(181)	(33.6)
Asia	2	1.4	(4)	(2.7)
Corporate & Other	7	n/a	0	n/a
Total Insurance Profit / Margin	493	7.0	660	9.1

FY11 GWP BUSINESS MIX



- Australia Direct
- Australia Intermediated
- New Zealand
- United Kingdom
- Asia

AUSTRALIA DIRECT STRONG PERFORMANCE MAINTAINED



Insurance Ratios	1H11	2H11	FY11
Immunised loss ratio	69.8%	68.9%	69.3%
Expense ratio	19.0%	19.8%	19.4%
Administration ratio	17.0%	17.7%	17.3%
Immunised combined ratio	88.8%	88.7%	88.7%
Insurance margin	19.4%	19.7%	19.5%

KEY POINTS

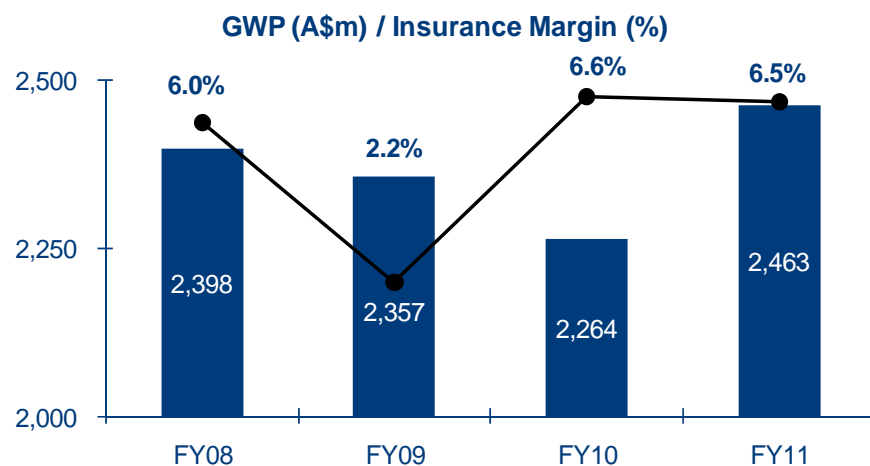
- GWP growth of 6.5%
 - Volume gains continue
- Increased insurance margin of 19.5%
 - Strong underwriting and cost discipline
 - Natural peril claim expense reduced by reinsurance
 - Higher reserve releases

OUTLOOK

- Further GWP growth
- Strong but lower margin than FY11
 - Timing of recovery of higher reinsurance cost via rate increases
 - Lower reserve releases



AUSTRALIA INTERMEDIATED UNDERLYING TURNAROUND CONTINUING



Insurance Ratios	1H11	2H11	FY11
Immunised loss ratio	58.5%	74.4%	66.4%
Expense ratio	35.7%	35.9%	35.7%
Commission ratio	14.8%	16.1%	15.4%
Administration ratio	20.9%	19.8%	20.3%
Immunised combined ratio	94.2%	110.3%	102.1%
Insurance margin	14.3%	(1.3%)	6.5%

KEY POINTS

- Top line growth restored
 - GWP increased by 8.8%
 - Higher rates, new business, acquisitions
- Insurance margin of 6.5%
 - Severe natural peril impact in 2H11 (TC Yasi, Brisbane/Toowoomba)
 - Higher reserve releases
- Underlying improvement of \$150m+ since FY08

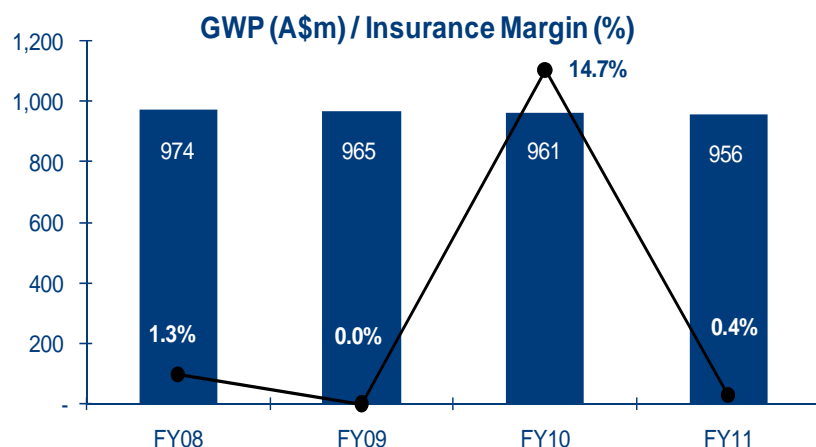
OUTLOOK

- Strong GWP growth
 - Includes HBF acquisition (\$100m GWP)
 - Rate increases to recover reinsurance costs
- Further progress towards double digit margin



NEW ZEALAND

EARTHQUAKE IMPACTS IN 2H11 – UNDERLYING PERFORMANCE STRONG



Insurance Ratios	1H11	2H11	FY11
Loss ratio	52.1%	91.4%	69.8%
Expense ratio	29.0%	34.6%	31.6%
Commission ratio	11.9%	13.4%	12.6%
Administration ratio	17.1%	21.2%	19.0%
Combined ratio	81.1%	126.0%	101.4%
Insurance margin	19.8%	(23.3%)	0.4%

KEY POINTS

- GWP grew by 3.4% in local currency
- Reported insurance margin of 0.4%
 - Significant 2H11 peril impact from earthquakes
 - Associated reinsurance costs
 - Underlying performance remains strong

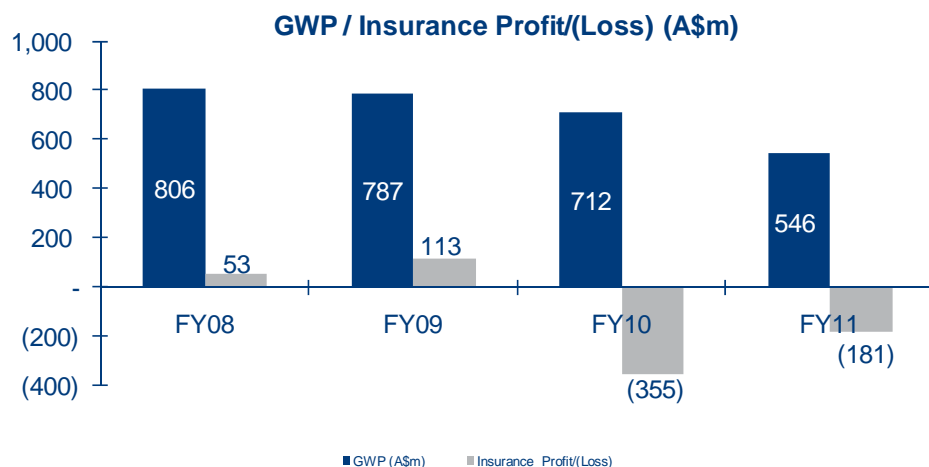
OUTLOOK

- Strong GWP growth
 - Rate increases to recover reinsurance costs
- Higher margin in FY12
 - More normal net natural peril claim experience



UNITED KINGDOM

REDUCED 2H11 LOSS, AS REMEDIAL ACTIONS TAKE HOLD



Insurance Ratios	1H11	2H11	FY11
Loss ratio	94.5%	104.9%	99.3%
Expense ratio	47.8%	22.8%	36.3%
Commission ratio	23.9%	9.8%	17.4%
Administration ratio	23.9%	13.0%	18.9%
Combined ratio	142.3%	127.7%	135.6%
Insurance margin	(41.3%)	(24.4%)	(33.6%)

KEY POINTS

- 23% decrease in reported GWP
 - Unprofitable business shed
 - Significant rate increases
 - Adverse currency impact
- Reduced 2H11 insurance loss of \$60m, in line with expectations
 - Remedial actions gaining traction
 - \$36m ADC reinsurance expense
 - No further call on ADC protection

OUTLOOK

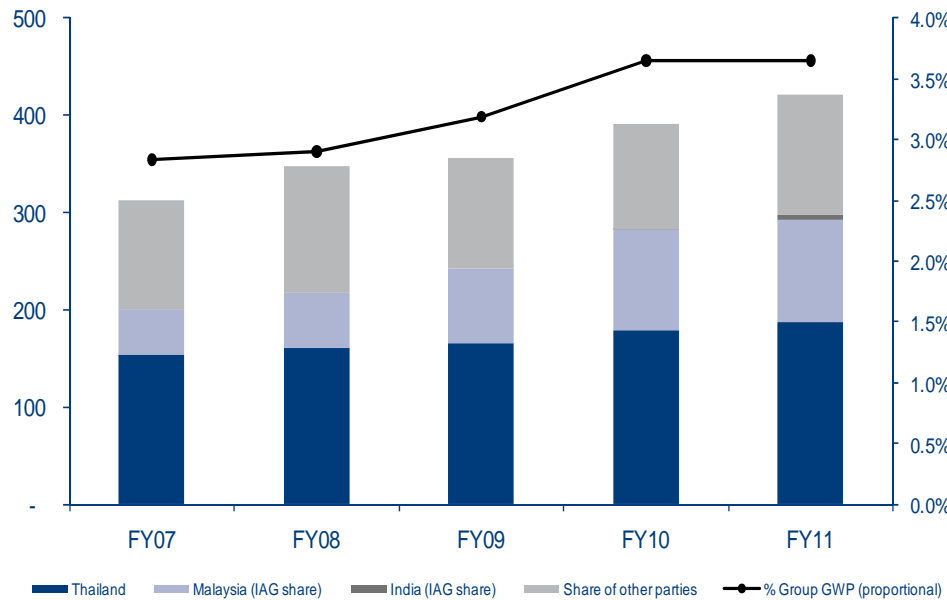
- Flat GWP – rate increases counter volume loss
- Improved performance, towards breakeven
- Early signs of industry reform



ASIA

GOOD PROGRESS IN INDIA AND CHINA

IAG ASIA – GWP POOL (A\$M)



KEY POINTS

- Regional GWP pool of over \$420m (IAG's share c.\$300m)
- Established businesses (Thailand and Malaysia) continue to perform soundly
- Expanded launch of Indian JV in 2H11
- Regional development costs largely covered by existing operations
- Strategic investment in China

OUTLOOK

- Sound growth from established businesses
- Ramp up of Indian business
- Assess new markets – Indonesia, Vietnam
- Targeted 10% of Group GWP on a proportional basis by 2016 (FY11: 3.7%)



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CAPITAL, INVESTMENTS AND DIVIDEND

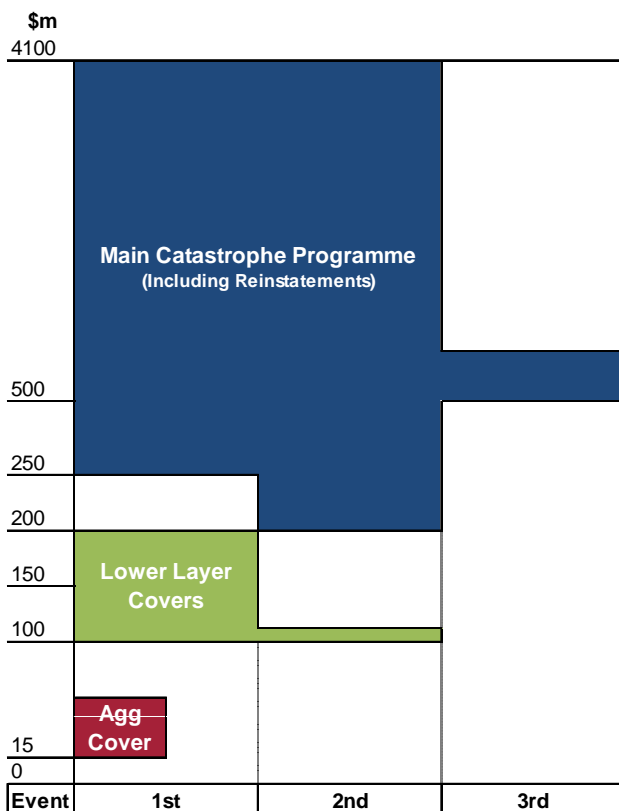
Nick Hawkins
Chief Financial Officer



REINSURANCE

CATASTROPHE COVER HAS SERVED THE GROUP WELL

IAG CATASTROPHE COVER - 30 JUNE 2011



Key part of capital management

- Significant reinsurance protections in both 1H11 and 2H11
- Integrated programme of catastrophe cover on calendar year basis renewed 1 January 2011

Status of catastrophe cover

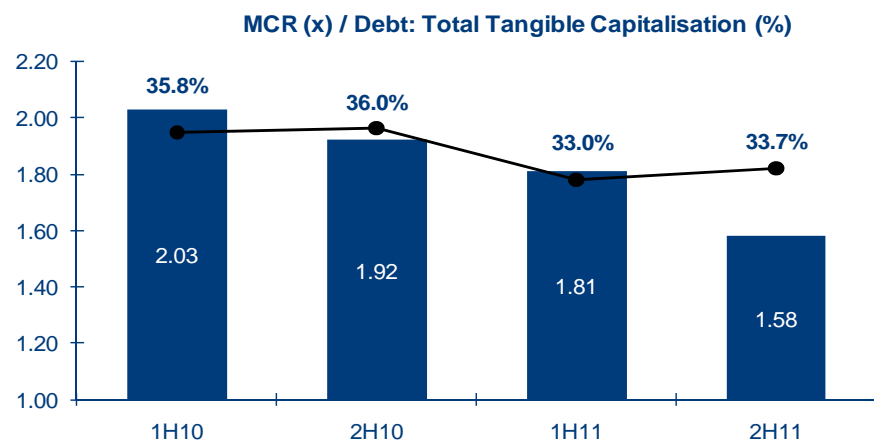
- Main cover from \$250m up to \$4.1bn
 - Reinstatements purchased post February 2011 earthquake in Christchurch
- Lower layer covers largely utilised
 - Approximately \$25m of aggregate cover remaining
- Maximum event retention (MER) of approximately \$150m at 30 June 2011



REGULATORY CAPITAL ABOVE LONG TERM BENCHMARK

- MCR of 1.58 times at 30 June 2011, remains above long term 1.45-1.5 benchmark
- MCR movement since 31 December 2010 reflects temporary impact of 2H11 natural peril events
- Movement expected to unwind over coming periods, as:
 - Claims are settled
 - Reinsurance recoveries are received
 - Deferred tax loss assets are utilised
 - Higher reinsurance costs are fully reflected in pricing
- Modest impact expected from APRA capital review
- Capital management initiatives on hold

CAPITAL MIX IN LINE WITH TARGET RANGE



CAPITAL MIX	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m
Shareholder equity	5,040	4,656	4,658	4,580
Intangibles and goodwill	(2,195)	(2,083)	(1,853)	(1,869)
Tangible shareholder equity	2,845	2,573	2,805	2,711
Interest bearing liabilities	1,586	1,450	1,380	1,377
Total tangible capitalisation	4,431	4,023	4,185	4,088

Capital mix in line with target

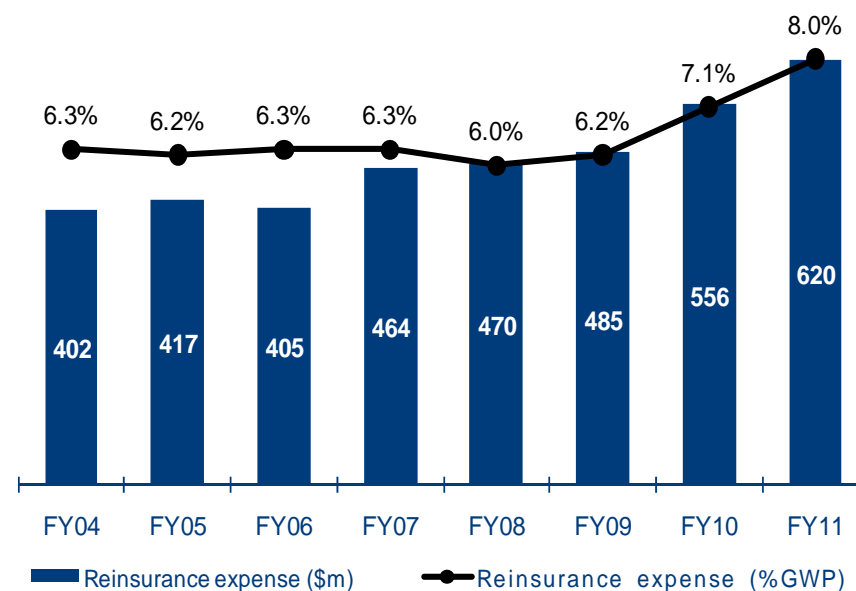
- Debt to total tangible capitalisation of 33.7%, in line with 30–40% target range
- Sterling note terms amended
- 'AA' category financial strength ratings for key wholly owned insurers from S&P – reaffirmed in August 2011

REINSURANCE EXPENSE

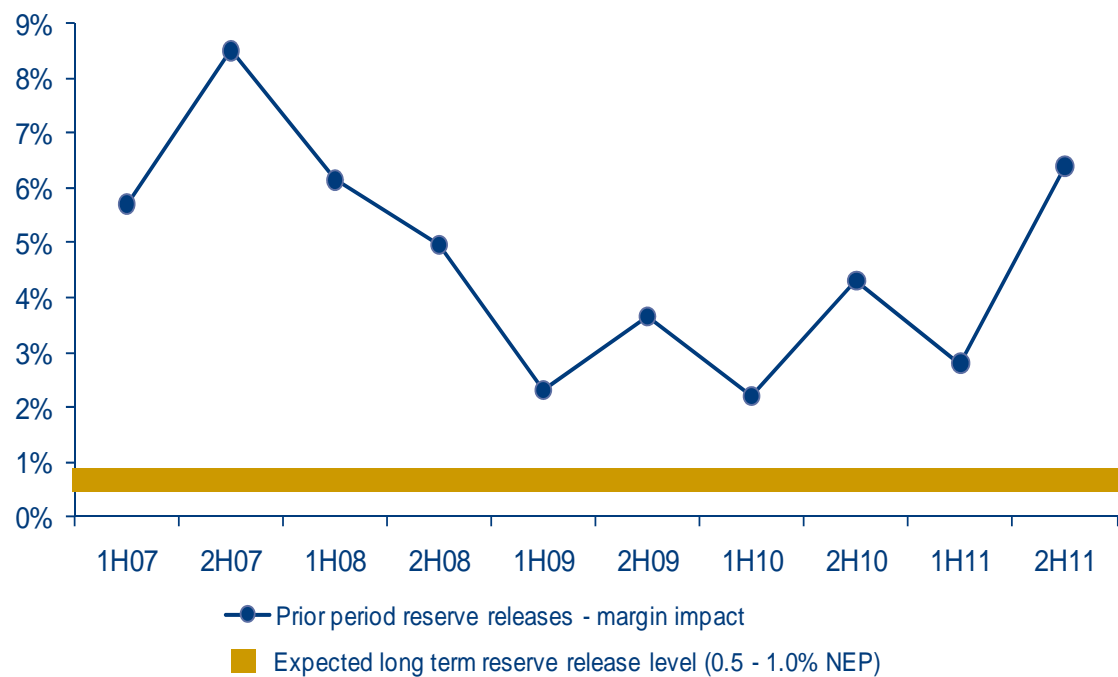
INCREASING COST, INCLUDING INCREMENTAL ITEMS

- Increased reinsurance expense, owing to:
 - Reinstatement and accelerated amortisation costs (\$83m)
 - Rate increase on catastrophe renewal
 - General business growth
- Rise in FY10 expense mainly due to cost of ADC in UK (\$67m)
- Further increase in FY12 reinsurance expense expected
 - Amortisation of balance of reinstatement costs in 1H12
 - Upwards pressure on catastrophe rates

GROUP REINSURANCE EXPENSE



RESERVE RELEASES EXCEEDED EXPECTATIONS



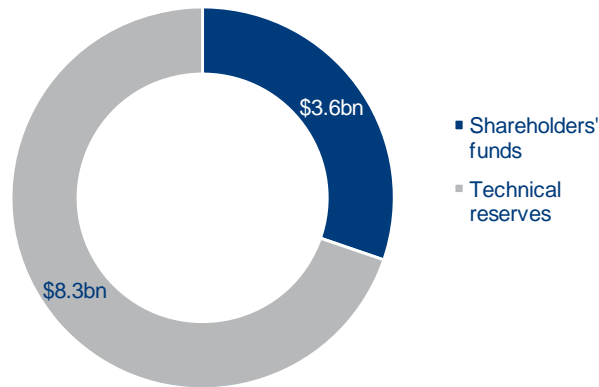
- FY11 releases of \$328m exceeded expectations
- Driven by favourable recent experience in following long tail classes:
 - NSW CTP (Australia Direct)
 - Workers' compensation and professional risks (CGU)
- Majority sourced from central estimate
- Risk margin of 20.6% (FY10: 19.4%)
- FY12 reserve releases will be lower
- Reserve releases of 0.5-1.0% of NEP a recurrent long term feature



INVESTMENT PORTFOLIO

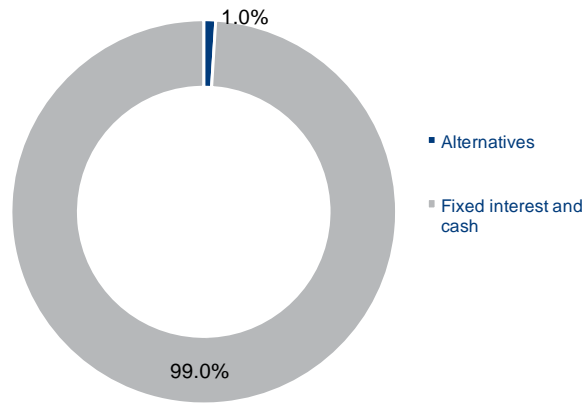
CONSERVATIVE MIX AND HIGH CREDIT QUALITY

TOTAL INVESTMENT PORTFOLIO – \$11.9BN



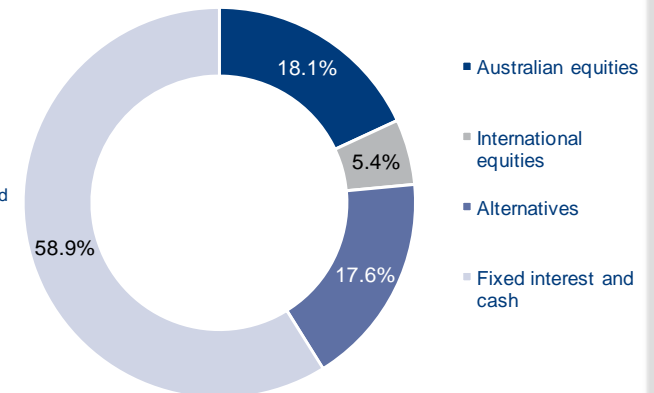
- Two distinct pools with different investment strategies:
 - Technical reserves – backing insurance liabilities
 - Shareholders' funds

TECHNICAL RESERVES



- Almost 100% fixed interest and cash
- Expect to maintain 100bps of return above risk free rate over medium term

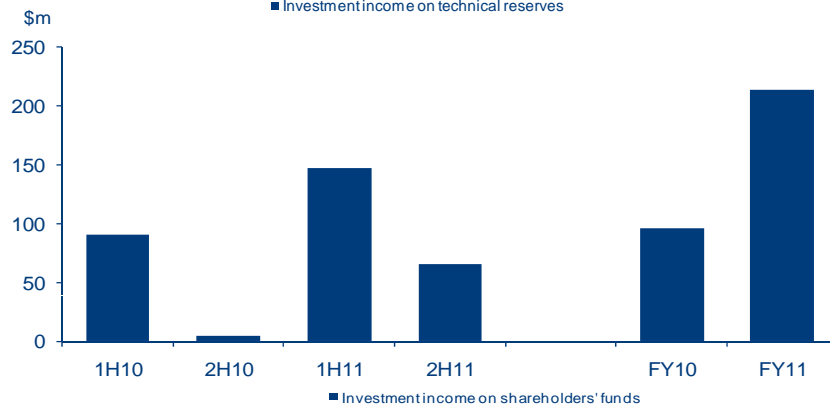
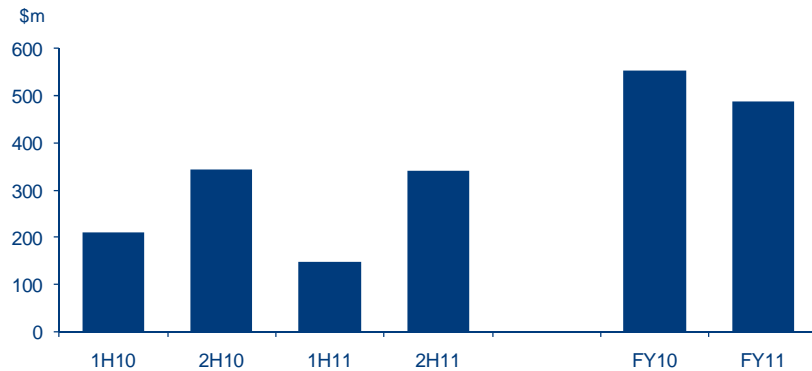
SHAREHOLDERS' FUNDS



- Steady increase in growth assets
- Approximately 18% of growth assets currently in alternatives, including global convertible bonds

INVESTMENT RETURNS

SOUND PERFORMANCE MAINTAINED



Technical reserve returns

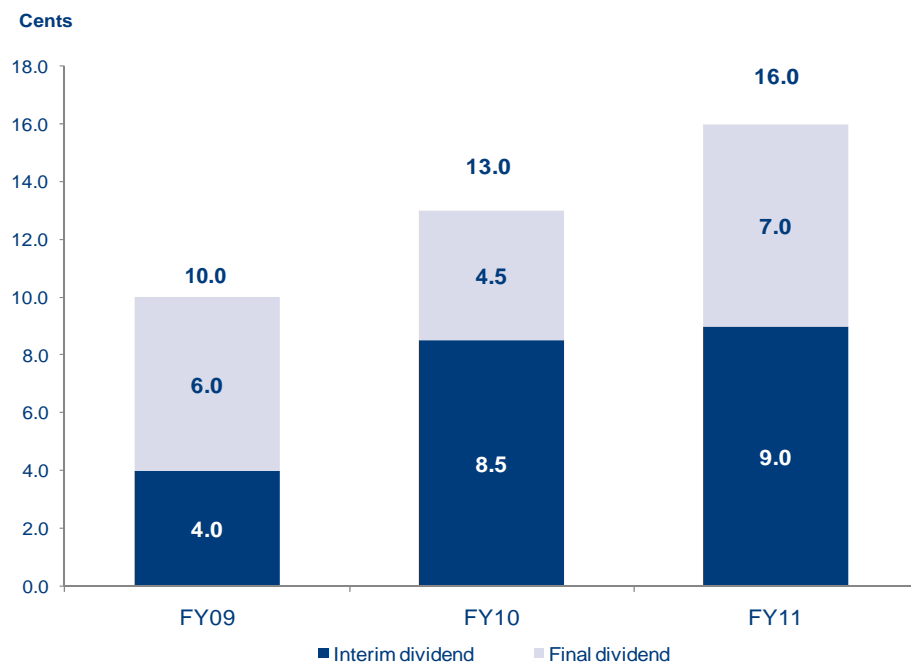
- Higher 2H11 performance, reflecting rallying bond markets
- Continue to target 100bps of return above risk free rate
- Negligible credit spread impact
- Average 3-year duration

Shareholders' funds returns

- Stronger equity market returns, notably in 1H11
- Absence of \$96m RES exchange right reversal

DIVIDEND

FULL YEAR DIVIDEND UP 23%



7cps fully franked final dividend

- Brings full year dividend to 16cps, up 23% from previous year
- Payout ratio of 67% of cash earnings, in line with 50-70% policy
- Cash earnings of \$496m (23.97cps), after adjusting for:
 - 2010 UK ADC cost (\$36m)
 - Amortisation of intangibles, including 1H11 UK writedown (\$176m)
 - UK tax benefit not recognised (\$34m)

4 OUTLOOK

Mike Wilkins
Managing Director and
Chief Executive Officer



RESETTING OUR STRATEGIC PRIORITIES

A CLEAR FOCUS ON AUSTRALIA, NEW ZEALAND AND ASIA

REALISING OUR POTENTIAL			
AMBITION	STRATEGY	TARGETS	PRIORITIES
To be the world's most respected group of general insurance companies	Deliver superior performance by actively managing our portfolio and driving operational performance and accountability	Long term financial targets: • ROE $\geq 1.5 \times$ WACC • Top quartile TSR	Accelerate growth in Australia and New Zealand Restore profitability in UK Boost Asian footprint – 10% of Group GWP by 2016

unchanged

unchanged

unchanged

reset



FY12 OUTLOOK

IMPROVED PERFORMANCE EXPECTED

	FY12
Insurance margin	10–12%
GWP growth	6–9%


















FY12 result expected to contain:

- Further increase in reinsurance expense
- Modest margin impact from delay in recouping higher reinsurance costs via premium rate increases
- Improved performance from UK, towards breakeven
- Stronger 2H12 performance

Guidance for FY12 assumes:

- Net losses from natural perils in line with budgeted allowances of \$580m
- Lower reserve releases of up to 2% of NEP
- No material movement in foreign exchange rates or investment markets

BUSINESS MODEL AND BRANDS

	DIRECT INSURANCE	INTERMEDIATED INSURANCE		DIRECT INSURANCE		DIRECT INSURANCE		INTERMEDIATED INSURANCE
AUSTRALIA	 		NEW ZEALAND		ASIA	 3	UNITED KINGDOM	
	  1					 5		
	  2							
ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)								

1. RACV is via a distribution relationship and underwriting joint venture with RACV Limited. 2. RACV has a 30% interest in The Buzz.
 3. 49% ownership of the general insurance arm of AmBank Group, AmG Insurance Berhad, trading under the AmAssurance brand. 4. 98% voting rights in Safety Insurance, based in Thailand. 5. 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India.

