

2011 INVESTOR BRIEFING

14 June 2011

ABN 60 090 739 923



6 UNITED KINGDOM

Restoring profitability

IAN FOY
CHIEF EXECUTIVE OFFICER

BUSINESS OVERVIEW

LARGEST LLOYD'S MOTOR SYNDICATE



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EQUITY RED STAR (ERS)



- Largest Lloyd's personal lines syndicate
- Diverse and broad based book ranging from fleets to classic cars
- Distributes through selected 3rd party brokers who deliver over 80% of ERS volume
- Remaining volume delivered through owned distribution

EQUITY DIRECT BROKING LIMITED (EDBL)



Affinity partnering with household names:



Honda Happiness

HSBC PREMIER



first direct

INDEPENDENT COMMERCIAL BROKERS

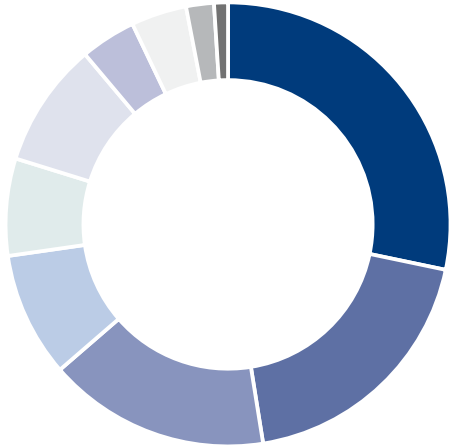
BARNETT & BARNETT



Top 30 commercial broker



GWP PRODUCT MIX



- Fleet
- Private car broker
- Private car direct (affinity motor)
- Commercial motor
- Household
- Motorcycle
- Agricultural
- Breakdown
- Classic car
- Personal accident

Remediation driving changed mix

- Reduction in overall GWP as a result of remedial action
- Significant reduction in external broker-sourced standard private car and household business
- Increase in higher quality private car business sourced through EDBL in line with hardening market
- Underwriting structure aligned to support desired product mix going forward

CURRENT MARKET ENVIRONMENT

THE ROAD TRAVELLED



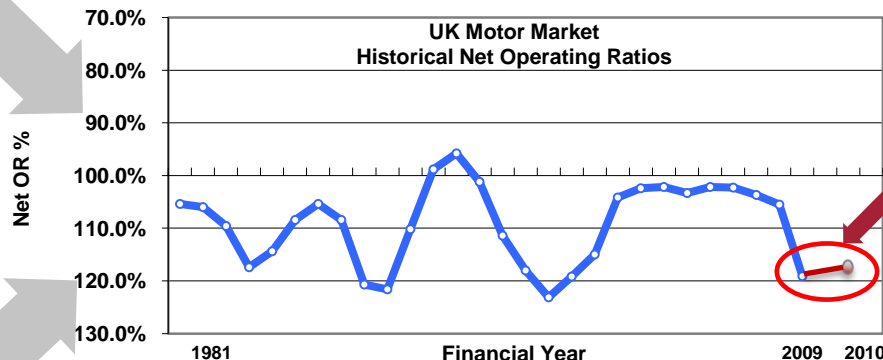
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Competition

- Aggregators continue to present a pricing challenge
- Aggregators account for c.55% of new private motor business
- Private motor has become more commoditised

Economic

- Increased prevalence of fraud
- Decline in investment returns



2009 - biggest deterioration on record
2010 - continuation of poor performance

Social

- Positive trends in road accident & vehicle theft frequency, but:
 - Unprecedented high levels of claims inflation
 - Compensation culture
 - Fraud rendering some parts of the UK almost uninsurable

Claims inflation

- Increased bodily injury claims driven by claim farming
- Dramatic increase in the number of personal injury claims management companies
- Increasing cost of credit hire vehicle provision

CURRENT MARKET ENVIRONMENT

THE ROAD AHEAD



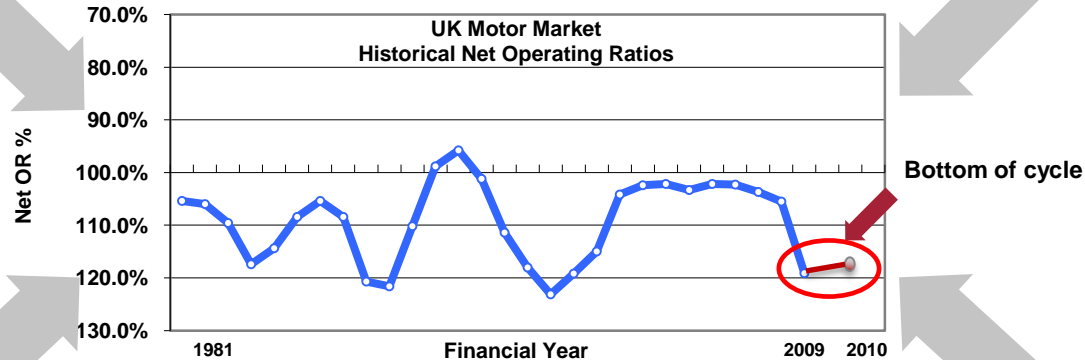
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Competition

- The need for market recovery will drive further rate increases
- The UK market will grow by both volume and premium
- Aggregators will still dominate private motor

Economic

- Interest rates are likely to rise
- Economic recovery may reduce recession driven fraud
- Customers will look beyond price to find value
- From 2011, sustained growth in the new car market



Social

- Simplicity and certainty will drive consumer product selections
- Reduced road traffic accidents to lower claims frequency
- Reduced exposure as a result of rising fuel costs

Claims inflation

- Positive steps towards tort reform
- Reduction in levels of uninsured driving
- Fewer uninsured drivers could reduce cross subsidy from insured drivers

OUR ACHIEVEMENTS

BUILDING THE FUNDAMENTALS



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 Underwriting	<ul style="list-style-type: none">✓ Immediate rate increases✓ Exited unprofitable relationships✓ Ceased writing non targeted external aggregators (non-bike)✓ Deep-dive review of all major classes of business✓ Implementation of underwriting improvements✓ New pricing function
 Claims	<ul style="list-style-type: none">✓ New management team✓ New reserving philosophy✓ Sophisticated technology solutions deployed✓ Extensive programme of efficiency savings underway✓ Supply chain review✓ Fraud infrastructure review
 Governance	<ul style="list-style-type: none">✓ New leadership team complete✓ Strengthened actuarial team and new external actuary✓ Phase 1 MI system upgrade delivered (underwriting & claims)✓ Strengthened local Board✓ ADC reinsurance arrangement

There are signs of recovery however change takes time:

- Earned premium patterns improving
- Superimposed claims inflation continuing
- Re-establishment of key relationships on financially mutual basis
- Harsh UK winter conditions experienced

FOCUS FOR THE FUTURE DRIVING FORWARD



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Horizon 1: Accelerated Remediation CY2011

- Redoubled our efforts
- Aggressive re-pricing across the portfolio
- Further exit of unprofitable business
- Continued development of key capabilities
- Alignment of cost base
- Organisational restructure
- Accelerated claims programme
- Reinsurance protection

Horizon 2: Re-focus CY2012

- A return to our core strengths
- Deliver our re-focused business model
- Drive an open, transparent and accountable culture
- Superior returns
- Strong internal capability

Horizon 3: Sustainable Position Beyond

- Passionate about motor
- Key insurance & management competencies
- Deeper broker relationships





Short term

- Strengthened senior leadership team
- Capable and passionate employees dedicated to restoring performance and profitability
- 2010 and prior year accounts are protected
- Smaller 2H11 insurance loss (vs 1H11) after inclusion of ADC cost
- Remediation process to improve performance in FY12 towards breakeven

Long term

- Improving market environment
- Positive contribution to Group performance