

21 May 2003

Ms Pam Ross
Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000



Dear Ms Ross

INSURANCE AUSTRALIA GROUP LIMITED ('IAG')
**INVESTOR PRESENTATION: NEW \$200 MILLION RESET
PREFERENCE SHARE OFFER**

Attached is a copy of an Investor Presentation to be made today in relation to Insurance Australia Group Limited's proposed new issue of up to \$200 million in reset preference shares ('RPS2').

Yours sincerely

A handwritten signature in black ink, appearing to read 'Anne O'Driscoll', written in a cursive style.

Anne O'Driscoll
**Group Company Secretary &
Head of Investor Relations**

Attachment: 39 pages

Reset Preference Shares (RPS2) issue of up to \$200 million

George Venardos, Chief Financial Officer

Anne O'Driscoll, Head of Investor Relations

Michael Woods, Corporate Treasurer

21 May 2003

Disclaimer



- This presentation has been authorised by Insurance Australia Group Limited (ABN 60 090 739 023) (IAG or the Company) in connection with a proposed offering (Issue) of IAG Reset Preference Shares (RPS2). The Issue will proceed pursuant to a prospectus which has been lodged with the Australian Securities and Investments Commission (ASIC). Deutsche Bank AG (Deutsche Bank) and UBS Warburg Australia Limited (UBS Warburg) are the Joint Lead Managers of the Issue.
- This presentation is provided to potential investors for the sole purpose of providing information to enable recipients to evaluate their interest in participating in the Issue. It is not intended as an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any security. Prospective investors should make their own independent evaluation of an investment in the RPS2.
- The information contained herein is subject to completion, verification and amendment. This document has not been lodged with ASIC. The Company, and its directors, agents, officers, employees and advisers similarly disclaim all liability for this presentation. The information that the Company will assume responsibility for is set out in the prospectus.
- The offer of RPS2 will be pursuant to the prospectus dated 20 May 2003. Any investor wishing to acquire RPS2 will need to read the prospectus and complete the application form that will be attached to, or accompany, printed copies of the prospectus or the electronic copy that will be available from IAG's website prior to the offer opening.

Reference to Standard & Poor's (S&P) ratings

- This presentation makes reference to ratings issued by S&P. In respect of all these references, it should be noted that:
 - S&P Issue Credit Ratings are not “market” ratings, nor are they a recommendation to buy, hold or sell securities (including the RPS2); and
 - S&P Insurer Financial Strength ratings are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold or sell any security offered by an insurer.



Agenda



- Offer summary
- The issuer – Operations & strategy
- The issuer – Financial position
- Offer structure
- Timetable



Offer summary



- **Issuer**
 - Insurance Australia Group Limited
- **Issue**
 - Up to \$200 million of reset preference shares (RPS2)
 - Face value of \$100 each – up to 2 million shares
- **Issue Credit Rating**
 - 'A-' by Standard & Poor's
- **Key features**
 - Preferred non-cumulative dividend fixed until first reset date on 15 June 2008
 - Dividend expected to be fully franked (gross up adjustment if not)
 - Rank equally in all respects with RPS1 (ASX:IAGPA) issued in June 2002 on substantially similar terms



The issuer – Operations & strategy

Leading general insurer in Australia and New Zealand



- Market leader (by gross premium written) in each of Australia & New Zealand
- Owns leading direct and intermediated brands

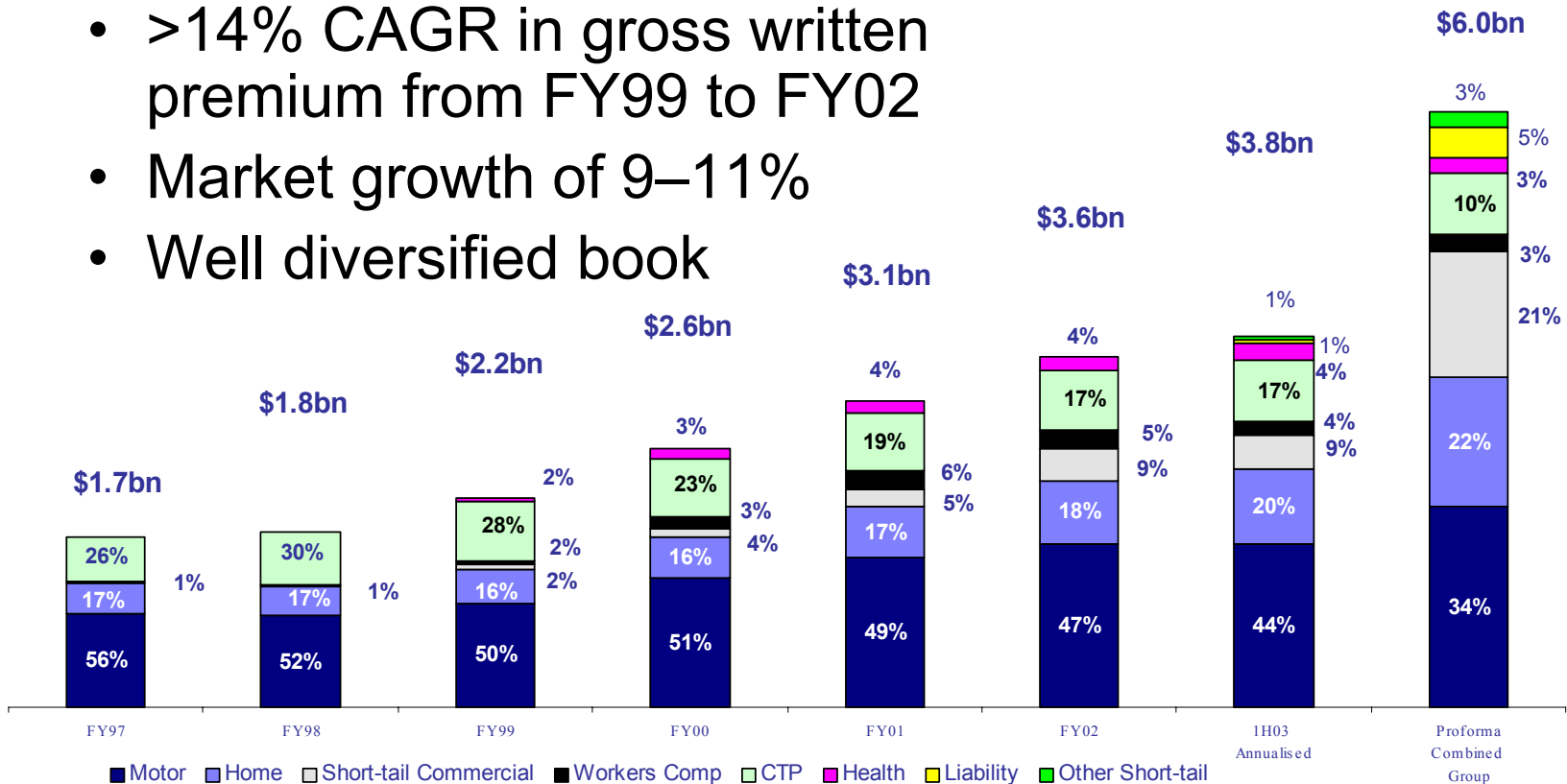


History of growth and diversification



Gross Written Premium By Business

- >14% CAGR in gross written premium from FY99 to FY02
- Market growth of 9–11%
- Well diversified book



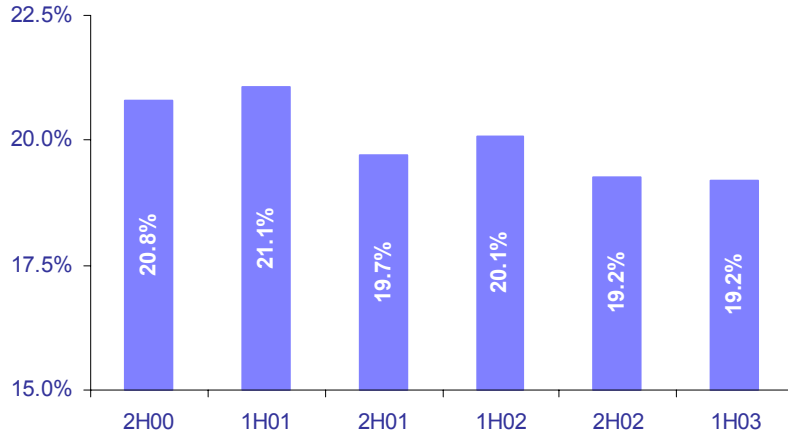
Note:

1. FY97 to 1H03 IAG GWP includes all business except Inward Reinsurance, which is in run-off.
2. Pro-forma GWP is the aggregate of the Group's consolidated GWP for half year ended 31 December 2002, doubled to give an annualised amount (\$3.8bn) and the aggregated GWP for CGU and NZI for the year ended 31 December 2002.
3. Other short-tail primarily consist of extended warranty and consumer credit businesses.

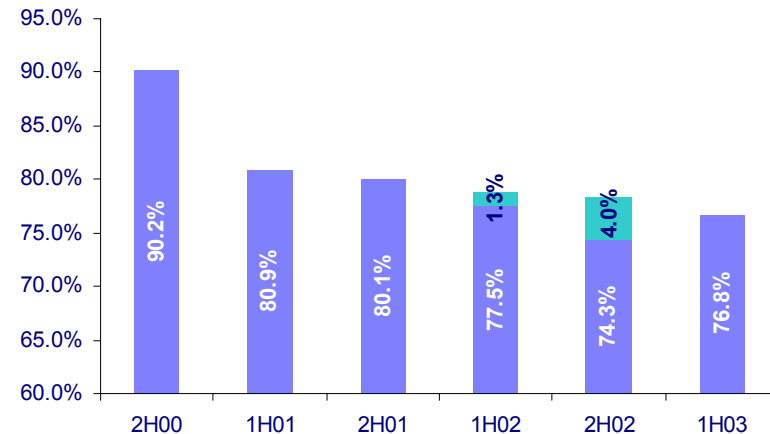


Improving insurance margins & components

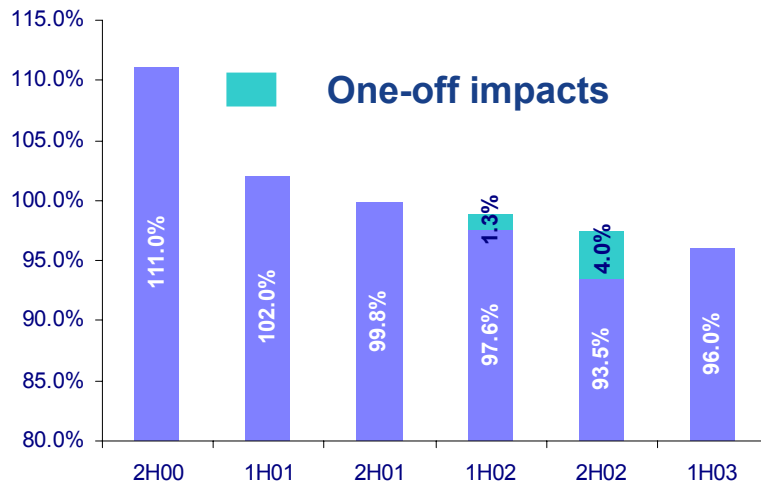
Expense Ratio



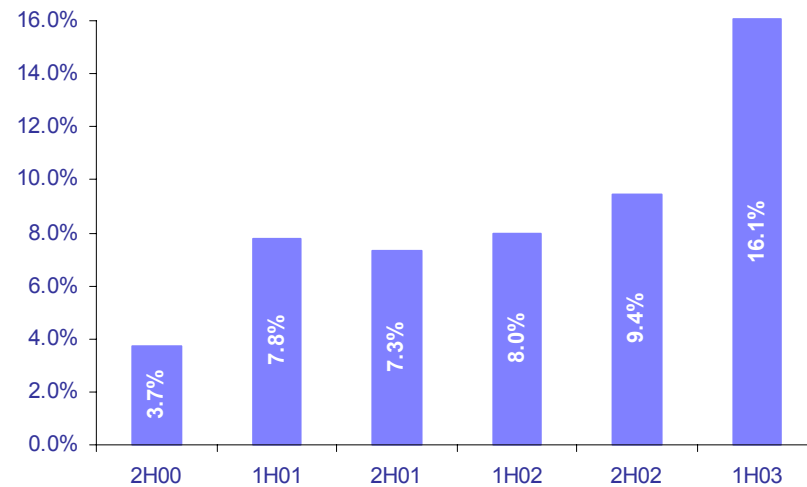
Loss Ratio



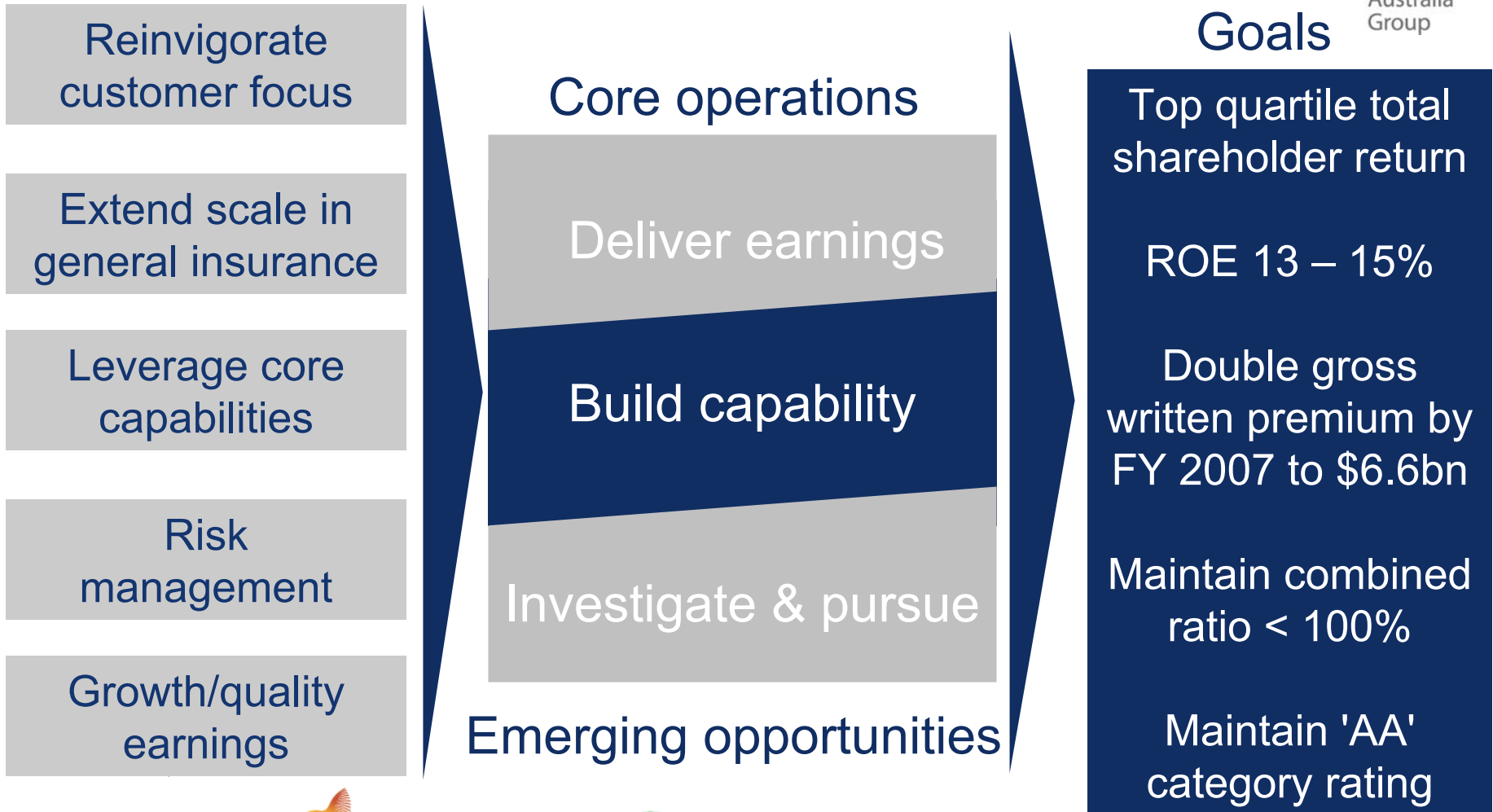
Combined Ratio



Insurance Margin (before tax)



Five year strategy announced in May 2002



Key elements of progress to date



- Reinvigorate customer focus
 - Getting It Right
- Extend scale in general insurance
 - Targeted CGU/NZI as most suitable acquisition
 - Continued to apply benefits of scale to existing business
- Leverage core capabilities
 - Getting It Right and brands
- Risk management
 - Increased skills & application of asset:liability work
 - Ongoing improvements in internal processes & culture
- Growth in quality earnings delivered & more to come



CGU/NZI acquisition – summary



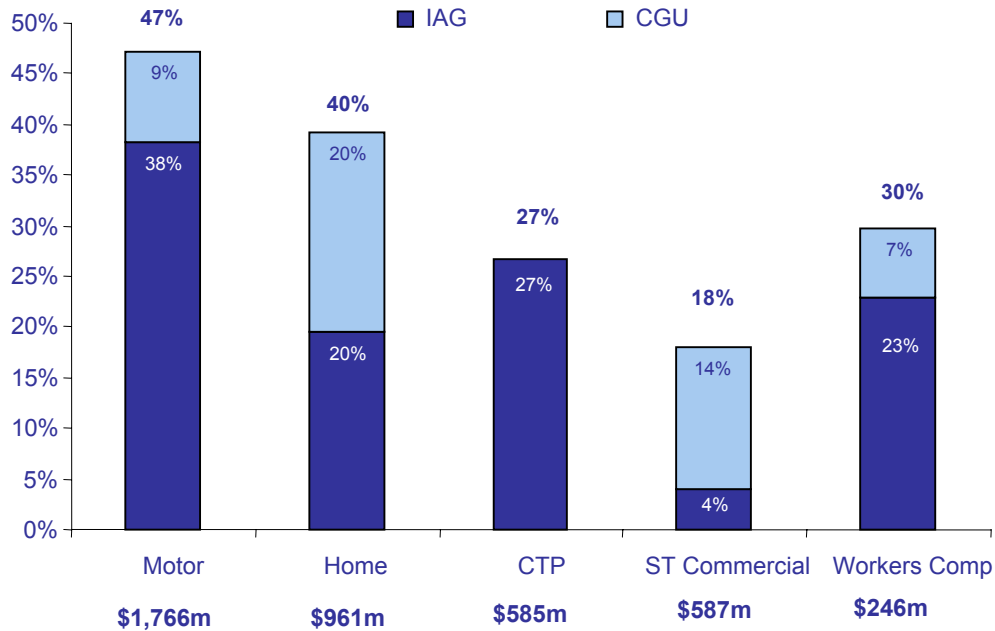
- Purchased Australia & New Zealand general insurance business of Aviva plc
 - Announced 18 October 2002
 - Completed on 2 January 2003
- Acquired for \$1.85bn
 - Gross premium income stream of \$2.3bn
 - Ongoing operations with a combined ratio of <100%
 - Leading intermediated businesses and brands
 - Scale platform for increased efficiency
 - Goodwill of \$1.1bn
- Funded by mix of equity, debt and hybrid equity
 - Offer of RPS2 completing part of that funding mix
 - Very strong 'AA' (Stable Outlook) rating from S&P retained



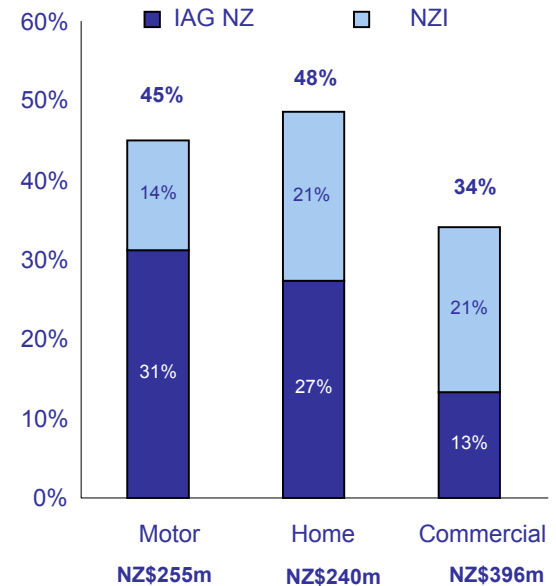
Provides market leading position in core products



Market share – Australia Based on gross premium revenue



Market share – NZ Based on gross written premium



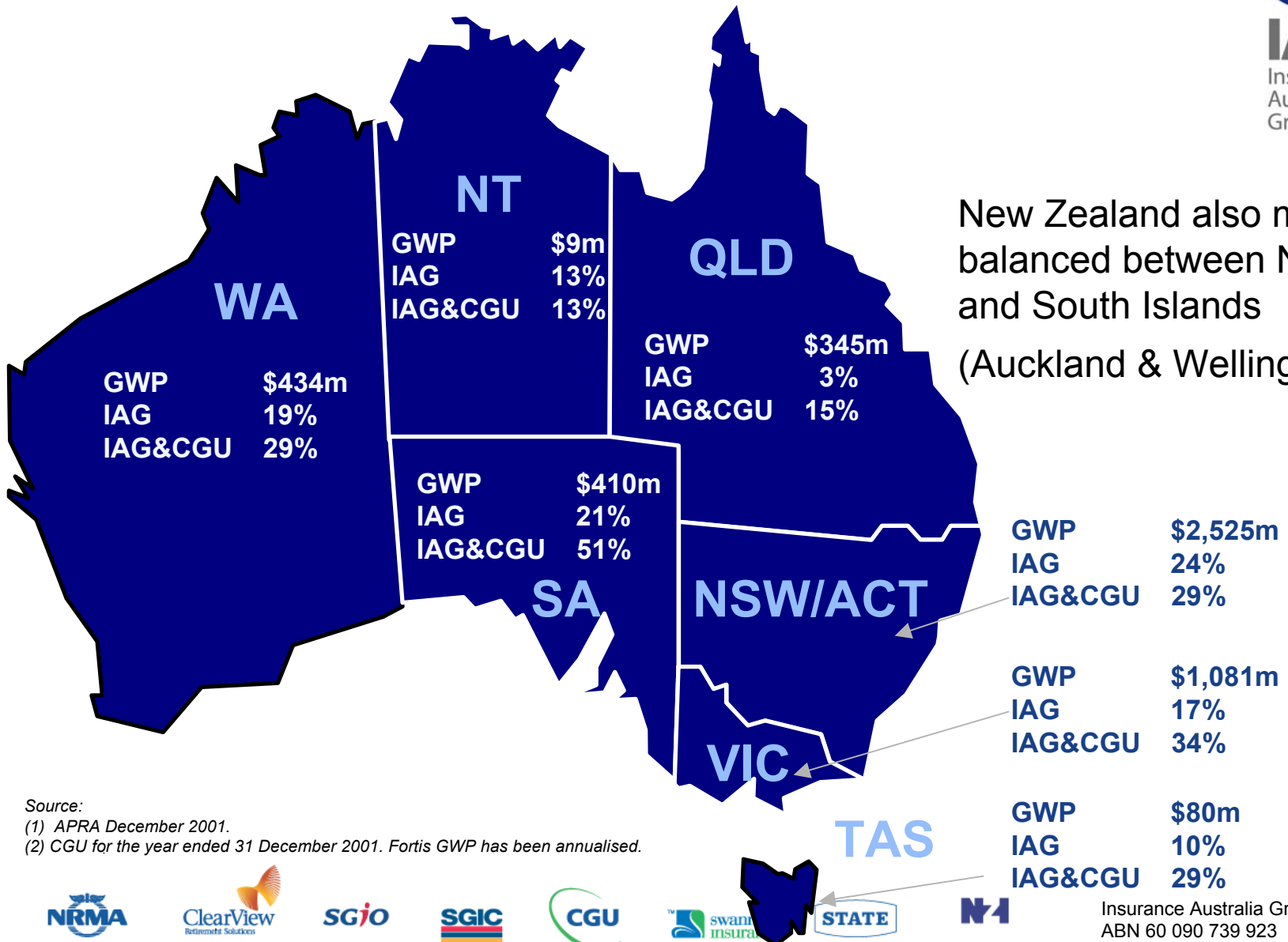
Source:

1. Australian market share data – APRA statistics at 31 December 2001.
2. IAG data for full year 30 June 2001.
3. NZ market share data – Insurance Council of New Zealand as at 30 June 2002.
4. CGU data for full year 31 December 2001.
5. NZI annualised half year figures for 30 June 2002.



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More balanced geographic spread



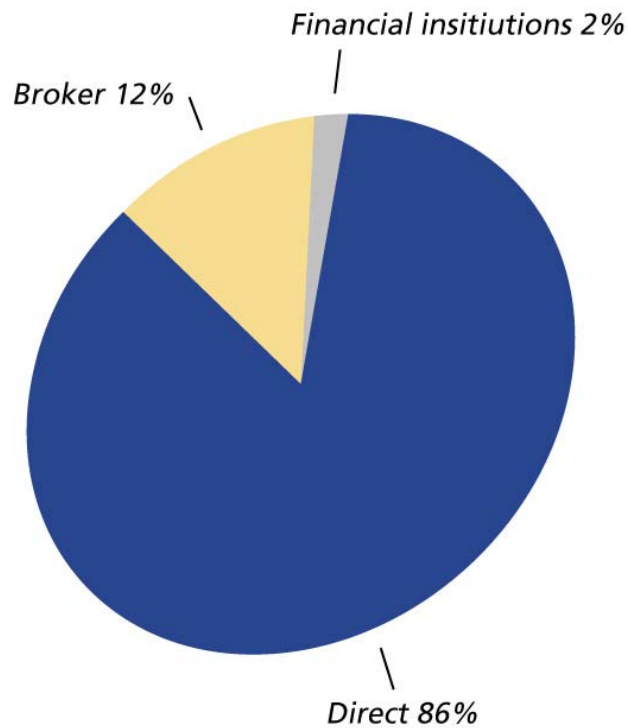
New Zealand also more balanced between North and South Islands (Auckland & Wellington)

Source:
 (1) APRA December 2001.
 (2) CGU for the year ended 31 December 2001. Fortis GWP has been annualised.

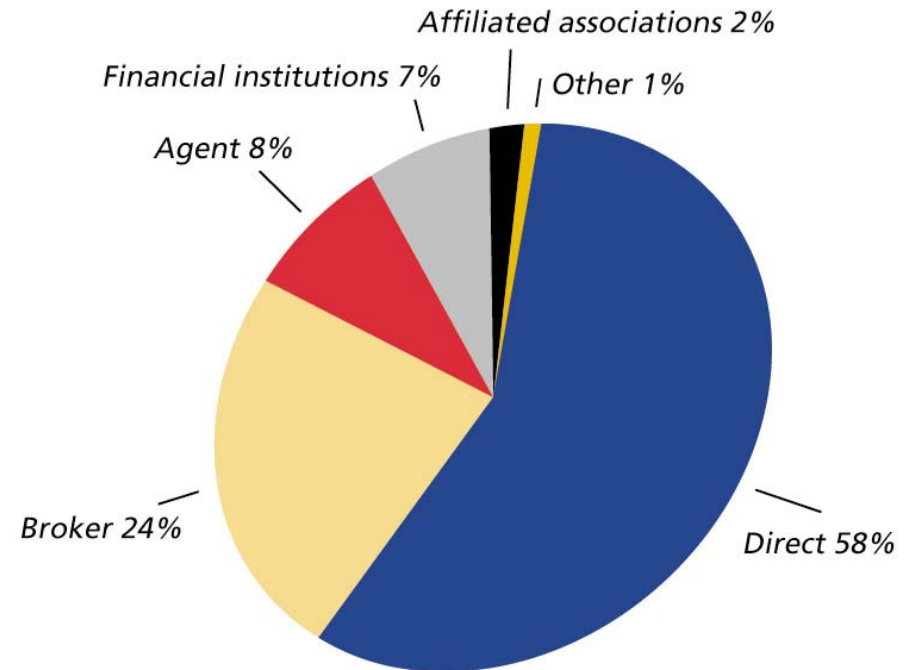


Full range of distribution channels

IAG pre CGU & NZI



IAG including CGU & NZI



Delivery of synergy benefits on track



Synergy realisation schedule	2H03	1H04	2H04
	A\$m	A\$m	A\$m
<i>Cumulative run-rate per annum</i>			
Personal lines	6	41	75
Commercial	4	14	30
IT, shared services & overheads	8	26	35
Australia sub-total	18	81	140
International - New Zealand	3	16	20
Total synergies in run-rate	21	97	160
<i>Reported income statement</i>			
Synergy benefits collected	7	31	68
Costs of implementation expensed	(49)	(28)	(8)
Net impact on profit for period	(43)	3	60

- Full annual run-rate to be in place within 18 months of acquisition
- Detailed benefit realisation planning complete – now being actioned



Pro-forma half-year insurance results - 31 December 2002



Consolidated Financial Results			
Half-year ended 31 December 2002	IAG	CGU/NZI	Combined
	A\$m	A\$m	A\$m
Gross written premium	1,886	1,134	3,020
Net premium revenue	1,799	953	2,752
Net claims expense	(1,382)	(593)	(1,975)
Underwriting expense	(346)	(320)	(666)
Underwriting profit/(loss)	71	40	111
Investment income on technical reserves	219	47	266
Insurance profit	290	87	377
Insurance ratios			
Loss ratio	76.8%	62.2%	71.8%
Expense ratio	19.2%	33.6%	24.2%
Combined ratio	96.0%	95.8%	96.0%
Insurance margin	16.1%	9.2%	13.7%

- Extracted from reported half-year for IAG and half of calendar 2002 for CGU/NZI (excluding discontinued businesses)
- Loss/expense ratio variance due to direct/intermediated focus



Key elements of progress to date



- Reinvigorate customer focus
 - Getting It Right
- Extend scale in general insurance
 - Targeted CGU/NZI as most suitable acquisition
 - Continued to apply benefits of scale to existing business
- Leverage core capabilities
 - Getting It Right and brands
- Risk management
 - Increased skills & application of asset:liability work
 - Ongoing improvements in internal processes & culture
- Delivered growth in quality earnings – and a platform for the future



Short term operating outlook

- 2H03 will include the impact of
 - Net expenditure on integration – estimated to be A\$43m
 - A\$70m in claims (net of reinsurance) for Canberra fires
 - Ongoing weakness in equity markets
 - Still targeting a combined ratio of <100%, barring any other major insured catastrophe
- FY04 should benefit from
 - Net income from synergies on acquisition
 - Ongoing growth in premiums – price and volume
 - Improved efficiency of operations
- Current target of 96-98% combined ratio on completion of investment in acquisition synergies – should yield >9% insurance margins

The issuer – Financial position

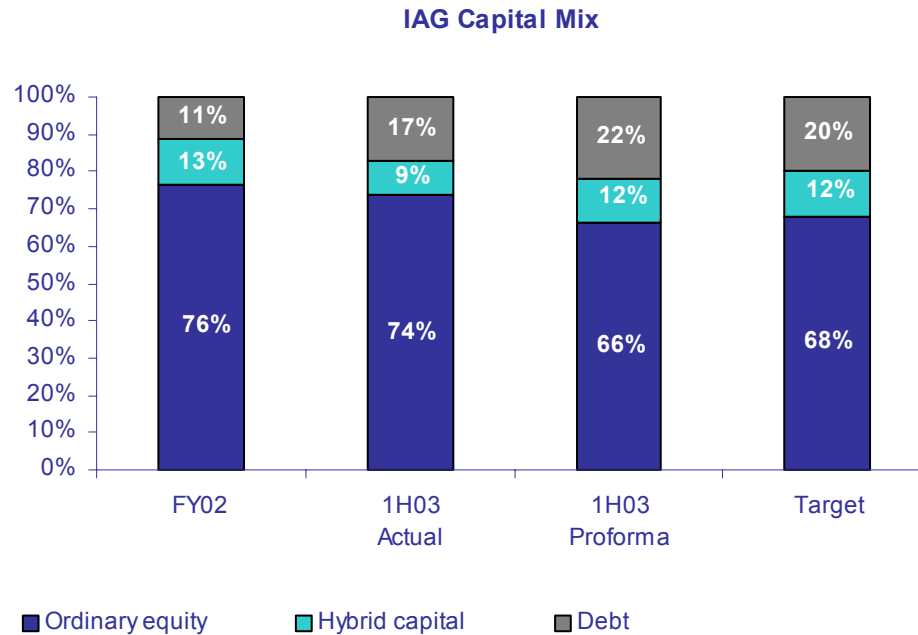
Financial position

- Capitalisation of \$5.2bn as at 19 May 2003
 - Ranked among 30 largest Australian listed companies
- Pro forma balance sheet for 31 December 2002
 - Total assets of \$16.2bn
 - Net assets of \$4.0bn (net tangible assets of \$2.3bn)
- Group distributable reserves of \$550m at 31 December 2002
 - \$75m interim dividend on Ordinary Shares paid in April 2003
 - \$10m declared on RPS1 for payment in June 2003
 - Not all distributable reserves at issuer level – distribution from some entities subject to APRA approval
- Capacity to fully frank in excess of \$700m of dividends

Capital management

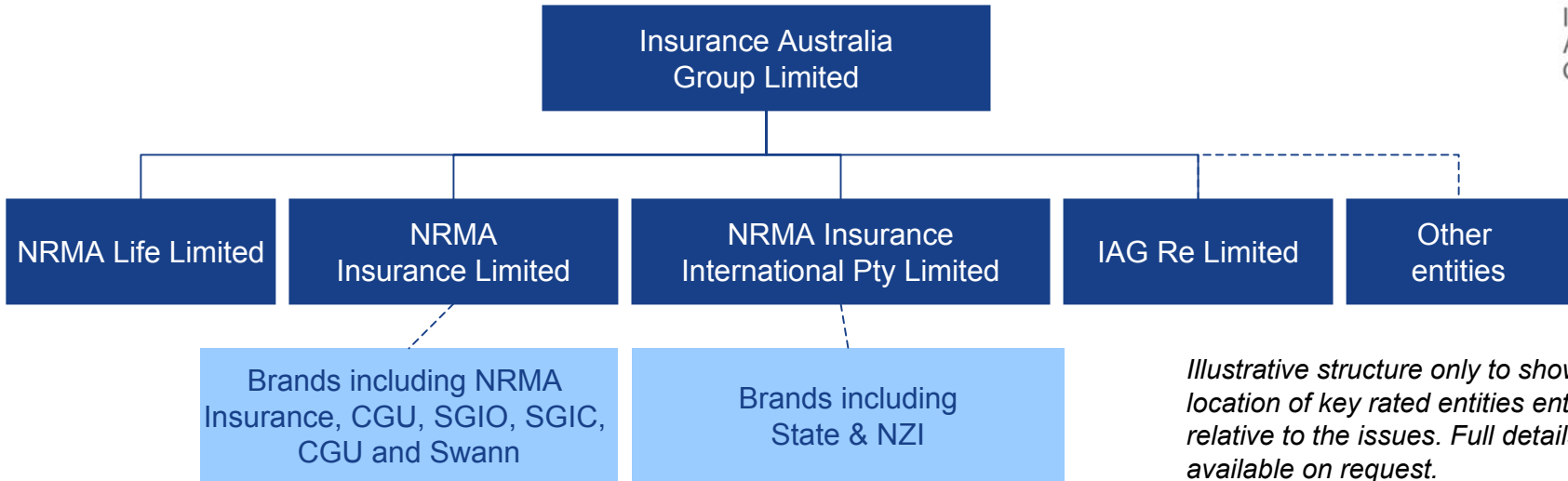
- Capital actively managed on three parameters
 - Risk of ruin of 1 in 750 years
 - A ‘AA’ rating for its main operating entities
 - A group risk-weighted MCR multiple range of 1.35-1.65 times (set applying APRA principles to ALL operations)
- Supported by
 - Conservative claims reserving (minimum probability of sufficiency of 90%)
 - Extensive reinsurance programme (maximum loss per event set at less than 2% of combined ratio)
 - Tactical derivative program in place on equities to reduce exposure of capital base to current equity market weakness

Pro forma capital mix post issue of RPS2



- The 1H03 pro forma includes the effect of:
 - The acquisition of CGU and NZI – completed on 2 January 2003
 - The issue of RPS2

Group structure and S&P ratings



Illustrative structure only to show the location of key rated entities relative to the issues. Full details are available on request.

RPS2 Issue Credit Rating
RPS1 Issue Credit Rating

A-
A-

Issuer Financial Strength Ratings

NRMA Insurance Limited
IAG New Zealand Limited
CGU Insurance Limited
New Zealand Insurance Limited
Swann Insurance (Aust) Pty Limited

AA
AA
AA-
AA-
AA-

Long-Term Counterparty Credit Ratings

AA / Stable Outlook
AA / Stable Outlook
AA- / Stable Outlook
AA- / Stable Outlook
AA- / Stable Outlook



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Group borrowings

- Current borrowings include
 - Senior borrowings of \$475m (mainly commercial paper)
 - \$300m of domestic subordinated notes
 - Issued November 2002 with an 'AA-' rating
 - Dual tranche (\$250m fixed & \$50m floating), 10 year - non-call 5 - maturity
 - US\$240m of subordinated notes (\$401m)
 - Issued April 2003 with a 'AA-' rating
 - 12 year - non-call 7 - maturity
 - FX exposure (principal & interest) swapped back to Australian dollars
- Proceeds of RPS2 offer
 - To be used to repay short-term senior debt obligations

Offer structure

Offer structure – key terms



- **Issuer**
 - Insurance Australia Group Limited
- **Issue of RPS2**
 - Up to \$200 million of reset preference shares
 - Face Value of \$100 each – up to 2 million shares
- **Dividend and franking**
 - Preferred non-cumulative Dividend fixed until the first Reset Date (15 June 2008)
 - Dividend Rate = (5 year Swap Rate + Margin) x (1 – 0.3)
 - Expected to be fully franked (gross up adjustment if not)
 - Payable 15 June & 15 December – same as RPS1
- **Ranking**
 - Rank equally in all respects with RPS1 issued in June 2002 on substantially similar terms



Details – Dividends

- Payment conditions for Dividends (same as RPS1):
 - Directors declare a dividend
 - Available profits
 - Standard Corporations Act requirements
 - APRA's basis of determining available profits
 - Post-dividend compliance with APRA capital adequacy
 - APRA not objecting to the payment of the Dividend
- APRA may waive its available profits requirement
 - Waived for all dividends paid by IAG since 30 June 2002
- If RPS2 dividend not paid & RPS2 remain on issue
 - Ordinary share dividend stop & no return of ordinary capital until RPS2 receive the equivalent of a year's Dividend

Details – Reset Date (first is 15 June 2008)



- Terms that can be reset (subject to any APRA restrictions) are:
 - Margin and Market Rate
 - Frequency and timing of payment of Dividends
 - Next Reset Date
- Changes to be advised - 50 Business Days prior notice
- Deemed acceptance of Reset of Terms unless RPS holders notify IAG of an Exchange election
- Holders can elect to Exchange RPS2 on Reset Dates – 35 Business Days prior notice required



Details of Exchange by Holder



- A Holder may request Exchange of some or all RPS2 on a Reset Date. IAG's choice to
 - Convert the RPS2 into Ordinary Shares at Face Value using a 20 day VWAP;
 - Arrange third party acquirer to pay the Holder \$100 per RPS2; or
 - Redeem, buy-back or cancel each RPS2 for the Face Value of \$100 - subject to prior approval by APRA
- IAG to give notice of its choice to holder at least 21 Business Days prior to the Reset Date

Exchange by IAG



- IAG may Exchange RPS2 on:
 - A Reset Date; or
 - Earlier in respect of all RPS2 following a Tax Event, Regulatory Event or Trigger Event (eg certain takeover bids or schemes of arrangement); and
 - Subject to the specified notification periods
- If converting some, must leave RPS2 with minimum Face Value of \$100m on issue
- On Exchange, IAG may
 - Convert the RPS2 into Ordinary Shares; or
 - Redeem, buy-back or cancel each RPS2 for \$100, subject to prior approval by APRA
- Conversion based on 2.5% discount to a 20 day VWAP if Exchange not on a Reset Date

Bookbuild and indicative timetable

Syndicate and Bookbuild



- Joint Lead Managers ('JLMs') and Bookrunners:
 - Deutsche Bank AG
 - UBS Warburg Australia Ltd
- Co-managers
 - Commonwealth Securities Limited
 - UBS Warburg Private Clients Ltd
- Bookbuild will be conducted by the JLM's and will close:
 - For institutions (through the JLM's only): at 4pm Thursday 22 May
 - For participating brokers: at 11am Thursday 22 May
- The bookbuild will be conducted based on a Margin - fully valuing franking credits (assuming 30% tax rate)
- Prior to 10am on Friday 23 May
 - Allocations and the Margin advised to institutions and brokers
 - Market Rate and Dividend Rate announced to the market



Indicative timetable



Lodgment of Prospectus	20 May 2003
IAG RPS1 in trading halt	21- 22 May 2003
IAG RPS1 ex-dividend date	22 May 2003
Bookbuild	21- 22 May 2003
Margin and Institutional / broker firm allocations advised	23 May 2003 (prior to 10am)
Market Rate and Dividend announced	23 May 2003 (prior to 10am)
IAG RPS1 recommence trading (ex-dividend)	23 May 2003 (at 10am)
Public Offer period	28 May - 19 June 2003
Institutional DvP settlement	19 June 2003
Final day for Broker Firm DvP settlement	19 June 2003
Allotment date	20 June 2003
ASX trading of RPS2 on a deferred settlement basis	23 June 2003
Dispatch holding statements	26 June 2003
ASX trading of RPS2 on a normal settlement basis	27 June 2003
First RPS2 dividend payment date	15 December 2003



Questions

Appendix – Additional information

Consolidated pro forma statement of financial position



A\$m	The Group	Pro forma adjustments			Pro forma
		Acquisition	Funding	RPS2	
Cash and investments	8,925	2,663	-1,307	-	10,281
Other assets	2,289	1,906	3	-	4,198
Intangibles	616	1,076	-	-	1,692
Total assets	11,830	5,645	-1,304	-	16,171
Claims outstanding and unearned premium	5,744	3,338	-	-	9,082
Current senior borrowings	301	-	82	-195	188
Non-current senior borrowings	92	-	-	-	92
Non-current subordinated borrowings	300	-	401	-	701
Other liabilities	1,605	520	-	-	2,125
Total liabilities	8,042	3,858	483	-195	12,188
Net assets	3,788	1,787	-1,787	195	3,983
Ordinary Shares	3,364	-	75	-	3,439
Reset preference shares	343	-	-	195	538
(Accumulated losses)/retained earnings	-402	-	-75	-	-477
Foreign currency translation reserves	-4	-	-	-	-4
Outside equity interests	487	-	-	-	487
Total equity	3,788	-	-	195	3,983

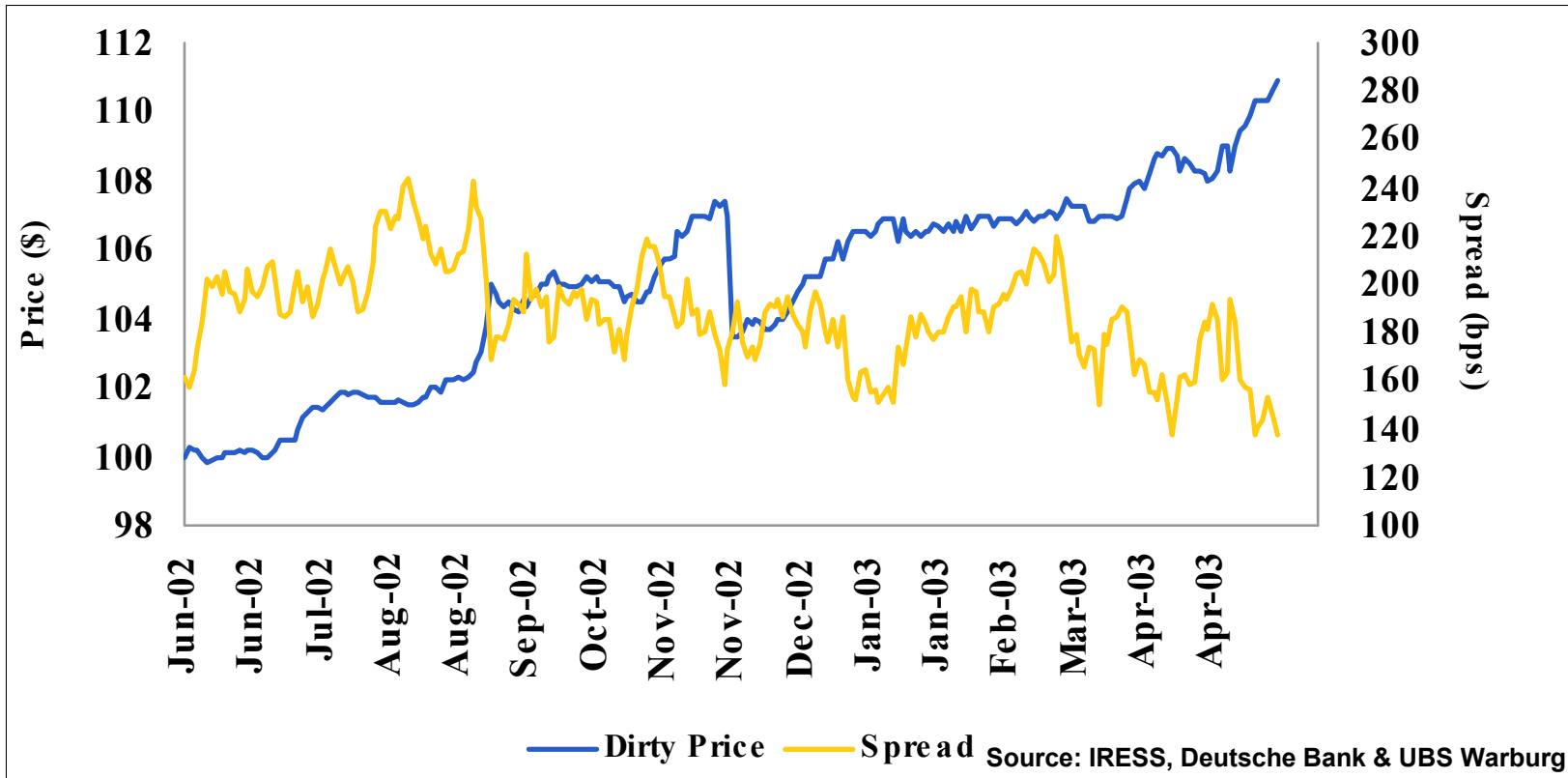
Note:

1. The Group's financial information for the half year ended 31 December 2002 does not include the results of CGU and NZI as the Acquisition was completed on 2 January 2003
2. The Group's financial information for the half year ended 31 December 2002 has been reviewed by the auditors. The aggregated pro forma statement of financial position of CGU and NZI and the pro forma adjustments are unaudited



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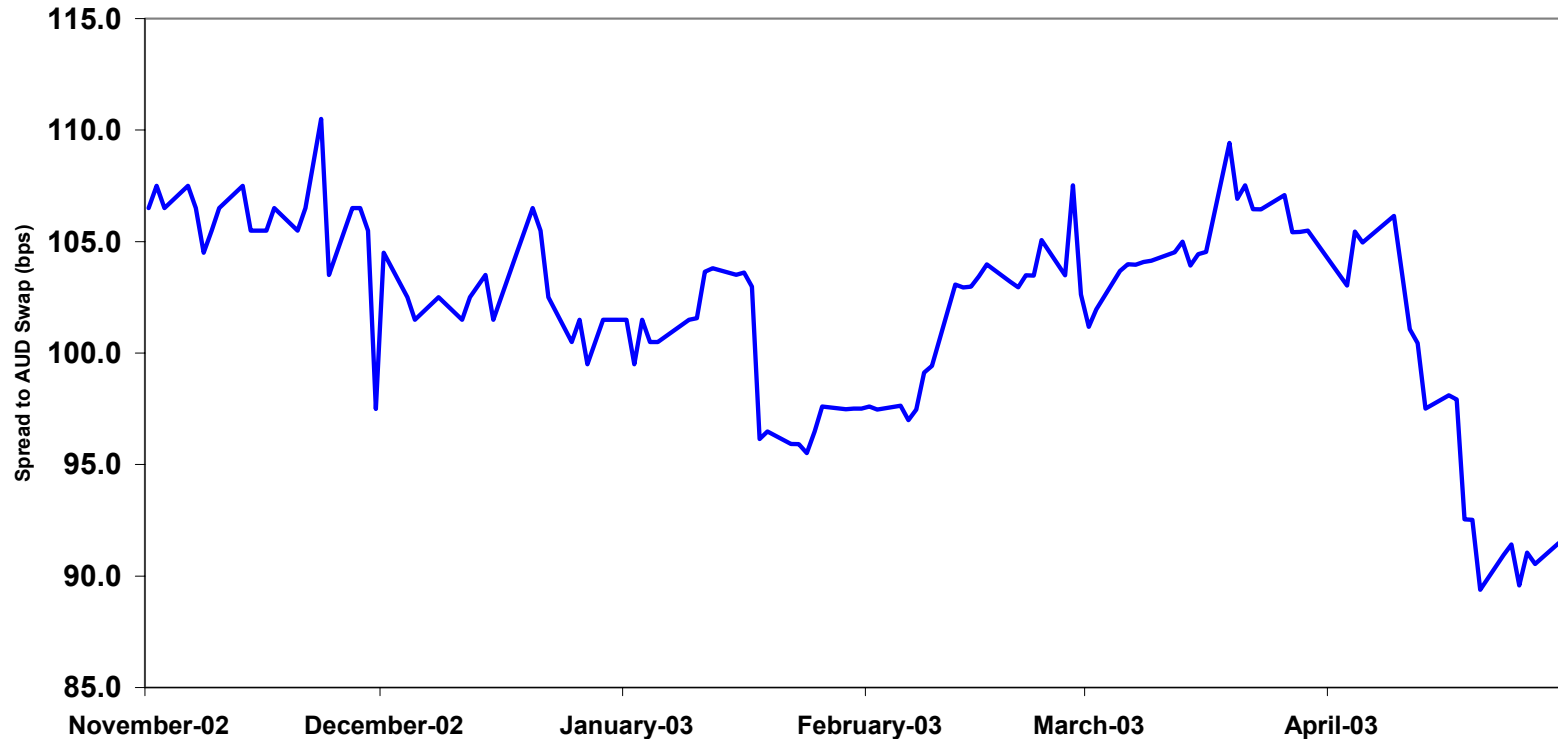
RPS1 trading performance



- RPS1 ex-dividend date is 22 May 2003 (in trading halt during bookbuild)
- Dividend of \$2.8921 per share (\$4.1316 if franking credits valued in full)

Sub-debt credit performance

NRMA Insurance Subdebt Secondary Levels



Source: Average of Deutsche Bank and UBS Warburg closing levels

Important information



The information in this presentation is an overview and does not contain all information necessary to an investment decision. It is intended to constitute a summary of certain information relating to Insurance Australia Group Limited ('IAG') and does not purport to be a complete description of IAG or the offer of RPS2.

The pro forma financial information is intended for informational purposes only, and does not purport to be indicative of the results that actually would have been obtained or the financial position that actually would have existed during and for the periods presented, and is not necessarily indicative of IAG's operating results or financial position to be expected in future periods.

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