

Investor Briefing 2007

29 October 2007

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All amounts are presented in Australian dollars unless otherwise stated.

AGENDA

| | | |
|------------------------------------|---------------|-------------|
| Introduction, Strategy and Outlook | Mike Hawker | 09.00-09.10 |
| Direct Personal Insurance | David Issa | 09.10-09.30 |
| Australian Commercial Lines | Mario Pirone | 09.30-09.50 |
| Business Partnerships | Jacki Johnson | 09.50-10.10 |
| Reserving | Tony Coleman | 10.10-10.30 |

Morning Tea 10.30-10.45

| | | |
|-----------------|----------------|-------------|
| UK | Neil Utley | 10.45-11.15 |
| New Zealand | Nick Hawkins | 11.15-11.35 |
| Asia | Justin Breheny | 11.35-11.55 |
| Summary and Q&A | Mike Hawker | 11.55-12.15 |

HIGH QUALITY, DIVERSIFIED PORTFOLIO OF ASSETS WITH EXPOSURE TO DIFFERENT MARKET CYCLES

- **Australian Personal Lines**
 - Growing well with a very strong margin
- **Australian Commercial Lines**
 - Actively managing the cycle
- **Business Partnerships**
 - Strengthening partnerships to improve profitability
- **UK**
 - Addressing challenges in Hastings/Advantage
 - Equity continues to perform better than market
- **New Zealand**
 - Market leader, improving productivity and generating growth
- **Asia**
 - Existing businesses performing well in challenging conditions
 - Disciplined approach to M&A

STRATEGY UNCHANGED

To be the best general insurer
in every market we invest in

Growing market
leadership in
core markets
(AU & NZ)

Profitable
niches in select
mature markets

Enter and grow
in high growth
markets

Invest for margin

Invest for growth

Core capabilities

Insurance technical skills, underwriting and claims

GEOGRAPHICALLY DIVERSIFIED BUSINESS WITH STRONG BRANDS



Australia



- Other Australian brands & interests include:
- 70% of Insurance Manufacturers of Australia
 - 51% of Mutual Community General Insurance
 - 50% of National Transport Insurance



New Zealand



Other New Zealand brands & interests include:

- NAC Insurance
- Swann Insurance
- Mike Henry Travel Insurance
- DriveRight
- 50% of First Rescue and Emergency
- 25% of Fly Buys NZ



Europe



Other European brands & interests include:

- Peoples Choice
- Advantage Insurance
- Insure
- Community Insurance
- Insurance Services
- Autonational Rescue



Asia



大陆汽车俱乐部
China Automobile Association



96% voting rights



30% owned



Non - Regional

Non-regional brands & interests include:

- Alba (Lloyd's Syndicate 4455)
- Diagonal Underwriting Agency

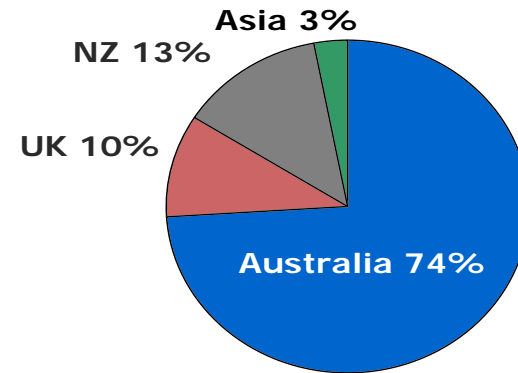
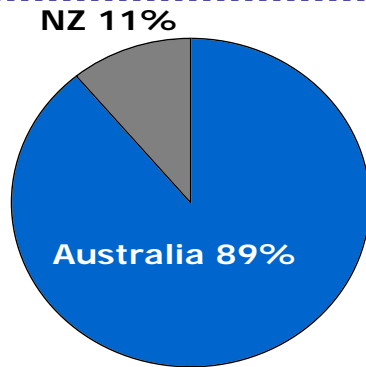
A MORE DIVERSIFIED PORTFOLIO

FY02 portfolio - \$3.56bn

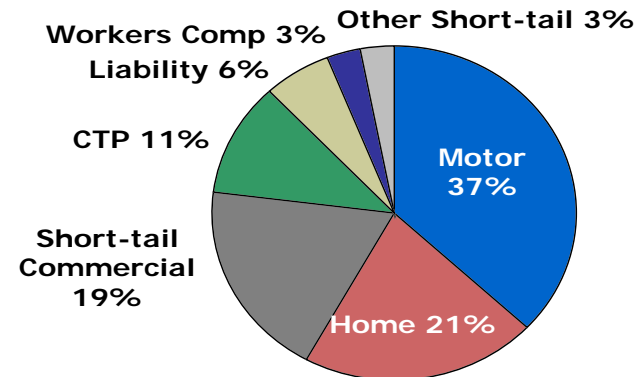
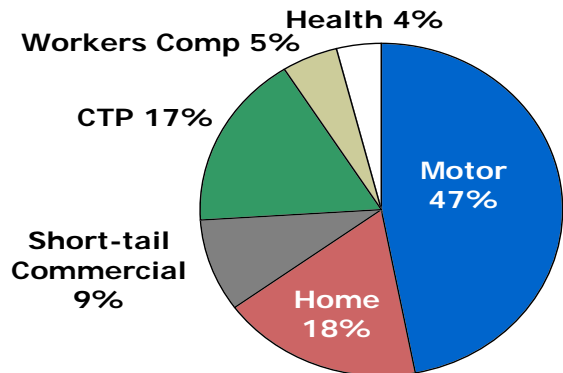


FY07 portfolio - \$7.38bn

GWP by geography

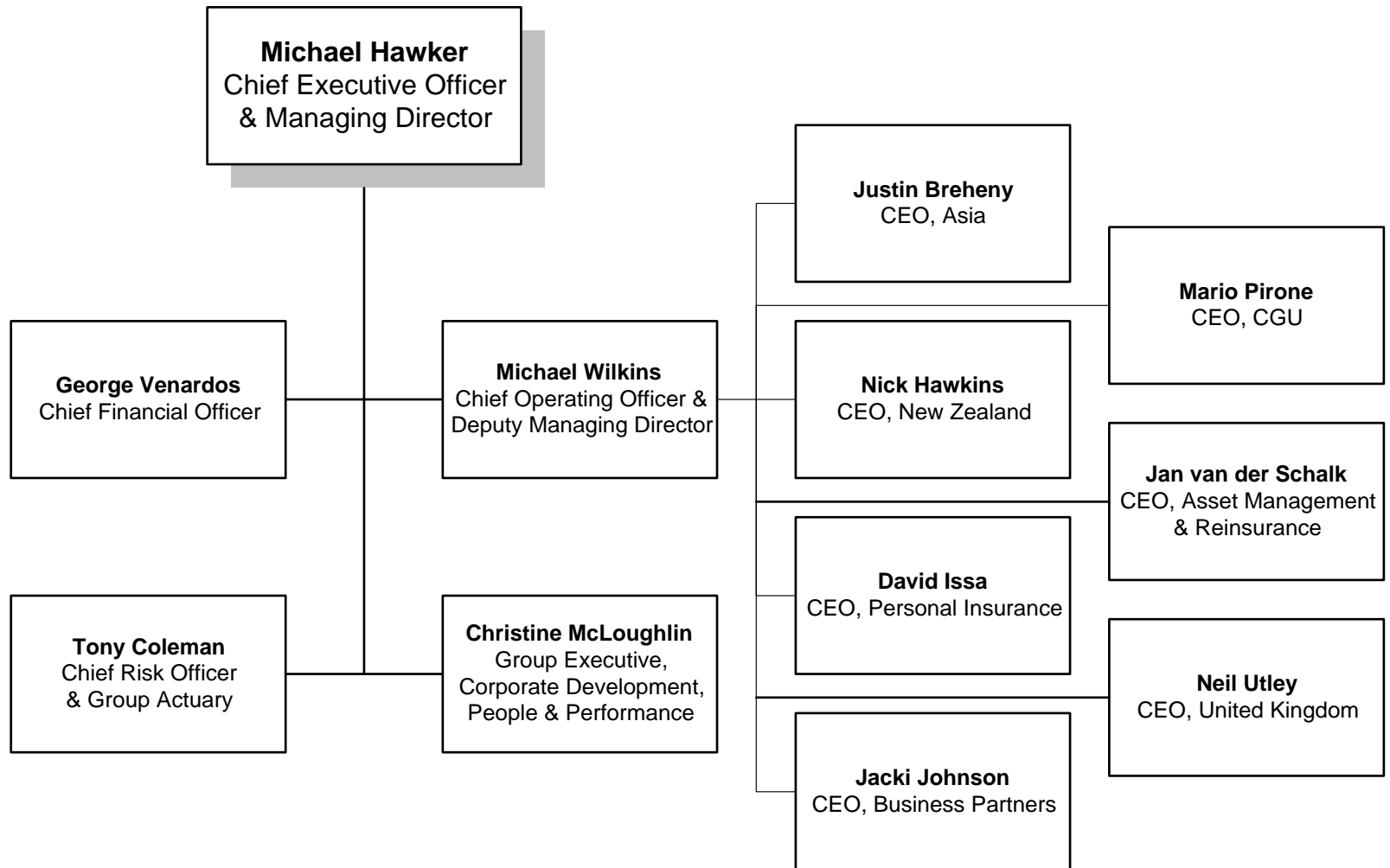


GWP by product



Source: IAG Group Finance

A STRUCTURE TO SUPPORT STRATEGY



FY08 TRADING OUTLOOK – SUMMARY

- **GWP growth of 7 – 9%**
- **Insurance margin of 11 – 13% on NEP of c\$7.5bn**
 - Subject to no catastrophes or large losses outside our allowance nor any material movements in currency or credit spreads
- **Financial position**
 - Consistent and conservative approach to reserving
 - Supported by strong capital position and very strong ‘AA’ ratings for key wholly-owned insurers
- **Dividend guidance of 29.5 cents per share maintained**
 - Acknowledge payout ratio likely to exceed 50-70% of normalised earnings
 - Do not expect to underwrite FY08 dividends

Direct Personal Insurance

David Issa

29 October 2007






DIRECT PERSONAL INSURANCE – A GROWTH STORY

- **Market is highly competitive but rational**
- **Returned business to growth**
- **Maintaining a very competitive margin**

MARKET REMAINS HIGHLY COMPETITIVE BETWEEN MAJOR PLAYERS

- **Fight for market share continues through:**
 - Price leadership messages and position – pricing remains rational but competitive
 - Advertising noise around product features and benefits to generate traffic and call volumes
- **Industry ownership is obviously more concentrated, from customer perspective there is no real change (same brands)**

OUR BUSINESS BENEFITS FROM ITS LARGE SCALE

| | | | | | | |
|----------------------|---|---|---|--|---|--|
| Target Market | Retail customers – mass market, \$3bn GWP | | | | | Statistics for FY07 <ul style="list-style-type: none"> ▶ 5m calls answered nationally ▶ Over 7.6m risks in force policies ▶ Over 440,000 claims finalised ▶ 4,765 employees |
| Brands |  |  |  |  |  | |
| States | NSW / ACT | Vic | Qld | WA | SA | |
| Channels | 32 Branches | 190 Country Service Centres | 4 Call Centres | 3 Internet sites | | |
| Products | Motor | Home | CTP | Lifestyle & Leisure | | |
| | Home Security | Health | Business Insurance | | | |
| Suppliers & Partners | 1,812 smash repairers | 129 builders | 553 other suppliers | 22 community partners | | |

1. RACV brand is not owned by IAG. IAG & RACV are, respectively, 70%/30% shareholders in IMA, a short-tail personal lines underwriter

THE JUNE 2007 QBW STORMS DEMONSTRATED OUR HELP PROPOSITION AND THE BENEFITS OF SCALE

- When Newcastle storms broke out over the Queen's birthday weekend...
- NRMA was the first on the ground and the first insurance company to reassure our customers that all claims would be paid
- We are now actively showcasing our response; how we helped restore order, thanking our partners and staff, and asking our customers whether they can afford not to be insured with NRMA
- Advertising campaign across NSW



When a storm breaks the drought,
it takes a lot of people to help break the storm.

NRMA Insurance would like to thank all the tradespeople and builders on the ground rebuilding the area. We'd also like to thank our own NRMA Insurance staff who have been professional and generous when entire communities have needed their help.



OUR STRATEGIC PRIORITIES ARE TO STRENGTHEN OUR SOURCES OF COMPETITIVE ADVANTAGE IN THE MARKET TO GENERATE PROFITABLE GROWTH

Four sources of competitive advantage

- ▶ Trusted brands
- ▶ Risk-based pricing combined with customer analytics to drive profitable growth
- ▶ Market presence through distribution network
- ▶ Supply chain management and productivity to support competitive retail pricing



Strategic priorities

1. Attract new customers
2. Retain existing customers
3. Profitable growth

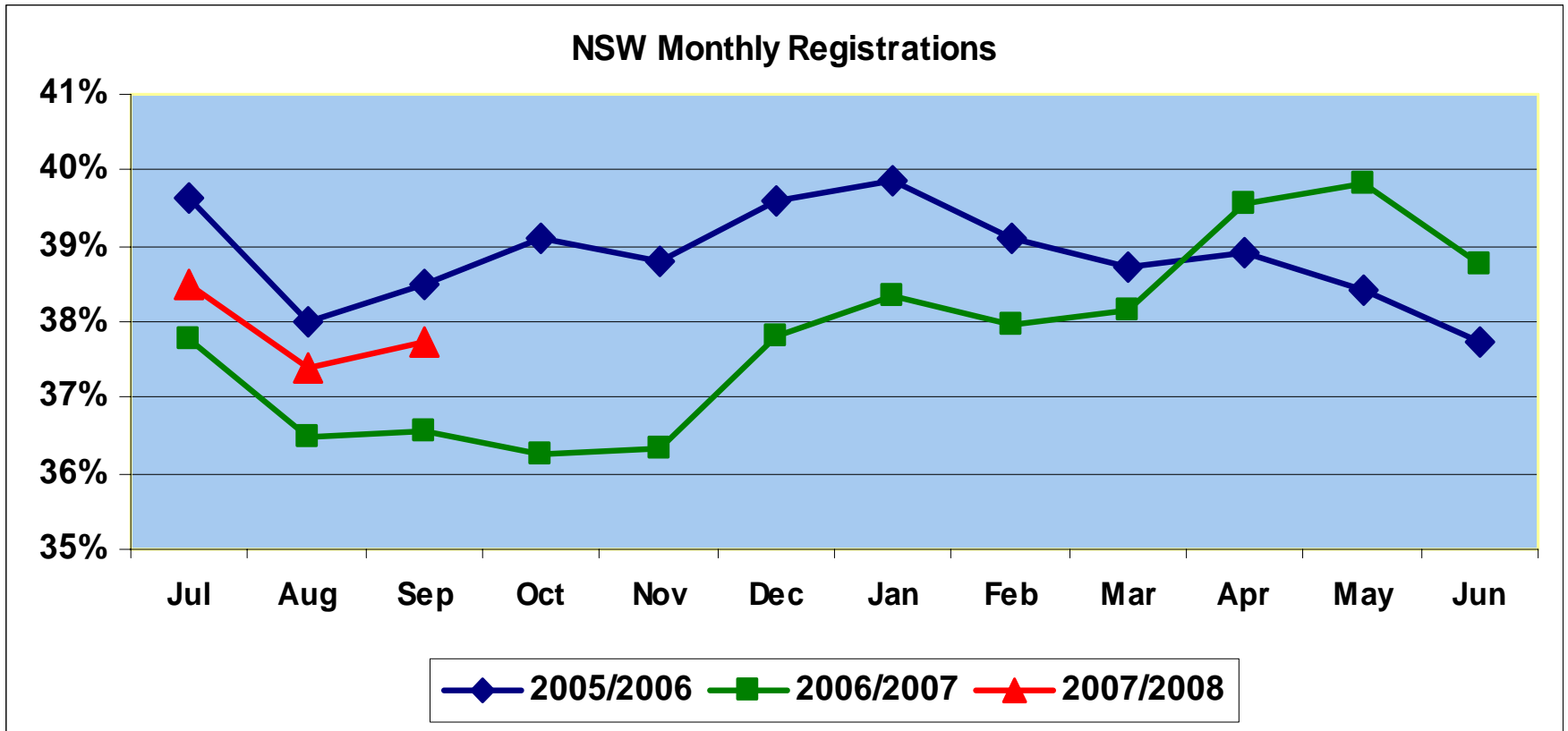
STABILITY AND FOCUS DELIVERING GROWTH

- **A stable management team has delivered the turnaround to growth through:**
 - Competitive pricing
 - Focus on marketing
 - Back to basics – reduced change for front line staff

STRONG 1H08 GWP MOMENTUM FOR SHORT-TAIL

- **GWP is forecast to be up by 4% – 6% compared to same period last year**
- **Strong conversion rates in our distribution network**
- **Non-customer pre-disposition towards our brands remain strong, a lead indicator of GWP growth**
- **Sales & Service Customer Satisfaction Index (CSI) of 84 in 2H07, 2 points above the market average; Claims CSI is in line with the market at 82**
- **Segmented price adjustments allows optimisation between volume and GWP growth**

NSW CTP EXPECTS MARKET SHARE OF 38–39% FOR FY08



CTP MOMENTUM CONTINUES

- **Growing market share in NSW and Qld, particularly in low risk car segments, substantiates our price positioning in both States**
- **GWP growth is ahead of our expectations in NSW and Qld**
- **Our premiums increase by an average of 5.6% in NSW from 1 November and remain competitive**
- **Claim frequencies in both States have plateaued, with NSW frequency well below industry average**

GWP GROWTH, CONSISTENT MARGIN TO CONTINUE

| DIRECT PERSONAL INSURANCE | FY06A | FY07A | FY08F |
|---|---------------|---------------|-----------------|
| GWP – Growth % vs SPLY | | | |
| Short-tail | (1.6%) | 1.9% | 4 - 6% |
| Long-tail (<i>post LTC</i>) | (4.9%) | (1.0%) | 3 - 4% |
| Total direct personal lines (<i>including LTC</i>) | | | 2 - 4% |
| Insurance margin | | | |
| Total PI ⁽¹⁾ | 17.0% | 16.2% | 17 - 20% |

Note: (1) Forecast assumes historical long term average for storms

LTC = NSW Lifetime Care & Support Scheme

DIRECT PERSONAL INSURANCE – A GROWTH STORY

- **Market is highly competitive but rational**
- **Returned business to growth**
- **Maintaining a very competitive margin**

CGU Insurance

Mario Pirone

29 October 2007

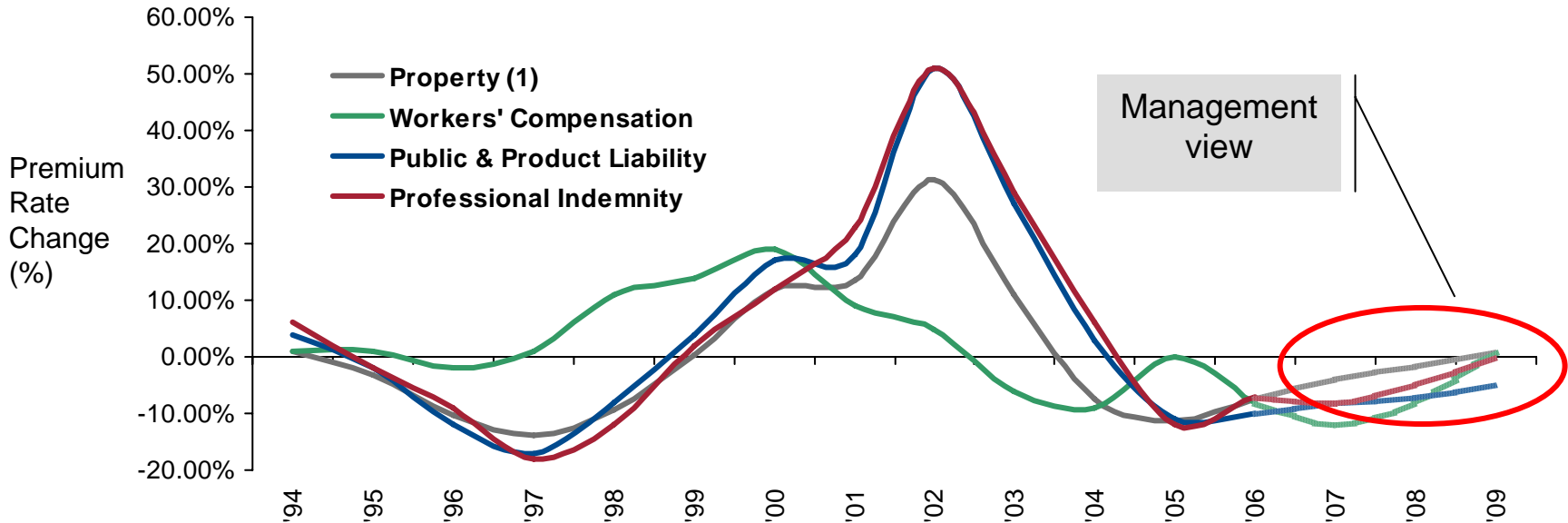
EXECUTIVE SUMMARY

- **State of the market**
 - Soft market conditions likely to continue through to end calendar year 2009
- **Competitive position**
 - Diversified product mix with high retention rates
 - Strong distribution network with strong focus on SME/middle market segments
- **Strategy**
 - Actively managing the cycle to maximise returns
 - Entrenching market position through account management model & expanding into market segments
- **Progress on execution**
 - Commenced implementing premium rate increases to short-tail book
 - Undertaken remedial action over past three years to withdraw from unprofitable products and sell underperforming businesses or those with a poor strategic fit
- **Outlook**
 - Premium growth under pressure as CGU implements short-tail rate increases
- **Focus/priorities**
 - Continue to grow selective portfolios and BusinessPak book; implement selective short-tail rate increases; support retention rates; roll out account management model; refresh eCommerce platform; and purchase outstanding interest in NTI

STATE OF THE MARKET

Commercial Lines premiums remain soft

Australian Commercial Lines Industry Premium Rate Change (%)



Commentary

- Commercial Lines premiums remain soft – this position is likely to continue until the end of calendar year 2009
- Aggressive competition evident across all lines of business
- Reductions in premium rates for long-tail classes driven by continued improvements to claims experience
- Short-tail premium rates are unsustainably low

(1) Property is weighted average premium rate changes for Fire & ISR and Commercial Motor

Source: JP Morgan / Deloitte General Insurance Industry Surveys, APRA Half Yearly General Insurance Bulletins, CGU Insurance management

COMPETITIVE POSITION

The business is strongly diversified

Highly engaged people

- Employee engagement up to 61% in 2007, placing CGU in the 'Best Employers' zone
- Turnover below 15% where industry turnover for Australian Commercial Insurance is around 20%

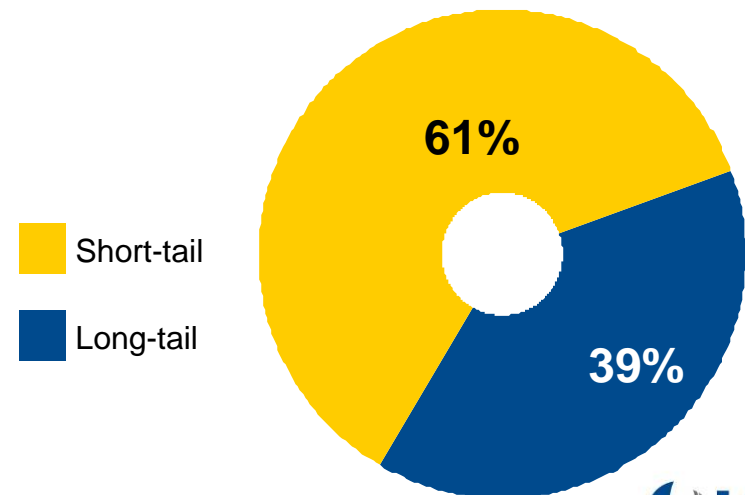
Strong customer relationships

- Highly decentralised distribution network relative to other insurers. Consists of 73 branch offices providing a large geographic footprint
- Strong relationships with Australian broker network
- Policy retention rates steadily improving over last 12 months and are now around 83%

Competitive business mix

- Focus is on SME and middle market segments
- Packaged business is 19% of commercial portfolio
- Strong market share in portfolios with high profitability – Workers' Compensation and Professional Risks

CGU Insurance GWP Commercial Lines FY07



STRATEGY – MARKET CYCLE

The business is actively managing the market cycle

How we manage through the cycle

Lead Indicators

- Lead indicators developed to monitor movement of prices within the market and the profitability of portfolio segments
- Allow corrective action to be taken before significant damage emerges

Pricing Risk

- Disciplined application of technical rates ensures price commensurate with risk
- Implementing rate correction in short-tail book where price no longer reflects the risk

Expense Management

- Tight management of expenses
- During soft market seeking productivity gains to keep expenses flat

Renewal Focus

- Nurturing relationships at the grassroots broker level to maximise renewal rates
- Introduced customer-centric claims teams

- 
- **Reduce volatility within portfolio**
 - **Minimise loss of customers during soft cycle**
 - **Maximise profitability**

STRATEGY – GROWTH

New initiatives being implemented in executing strategy

Grow Specialist Products

- Use deep knowledge within highly specialised, technical products to gain market share in key areas
- Key products include: Professional Risks, Workers' Compensation, Engineering & Construction, Heavy Motor and BusinessPaks

Account Management Model

- Developing robust sales culture
- Focus growth in specialist products
- Consistent and professional approach to contesting business
- Incentivise sales force to deliver on growth targets

Refresh eCommerce Platform

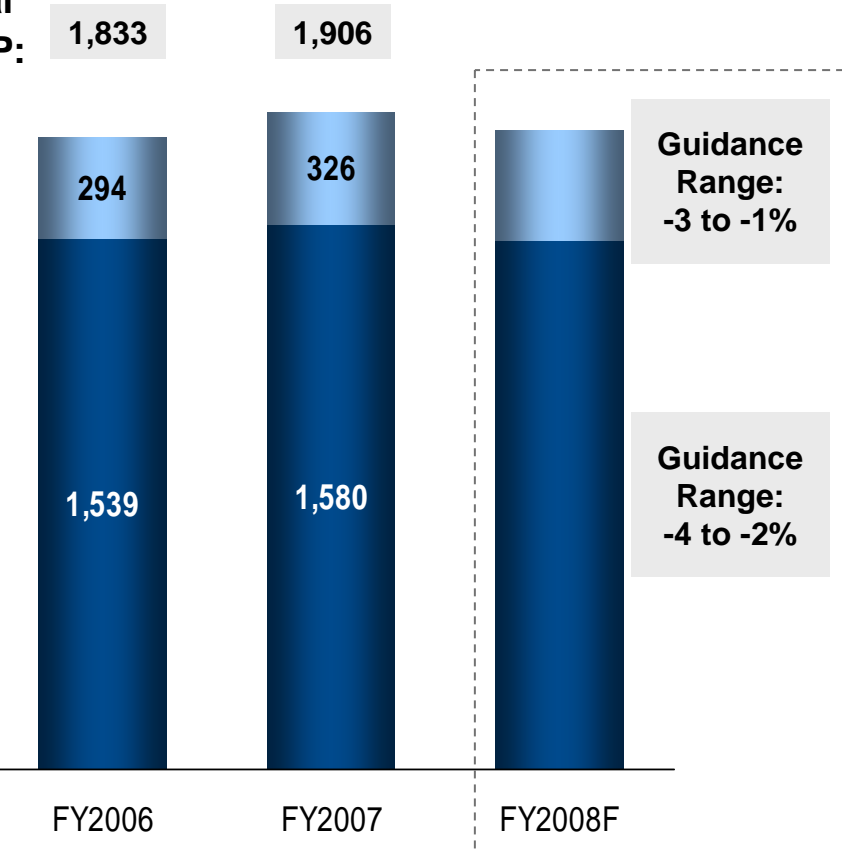
- Brokers seeking to create a more contestable model, while also looking to deal with fewer insurers to reduce cost
- Refreshing eCommerce systems to capitalise on opportunities as this model becomes more prevalent

OUTLOOK – GWP and NEP

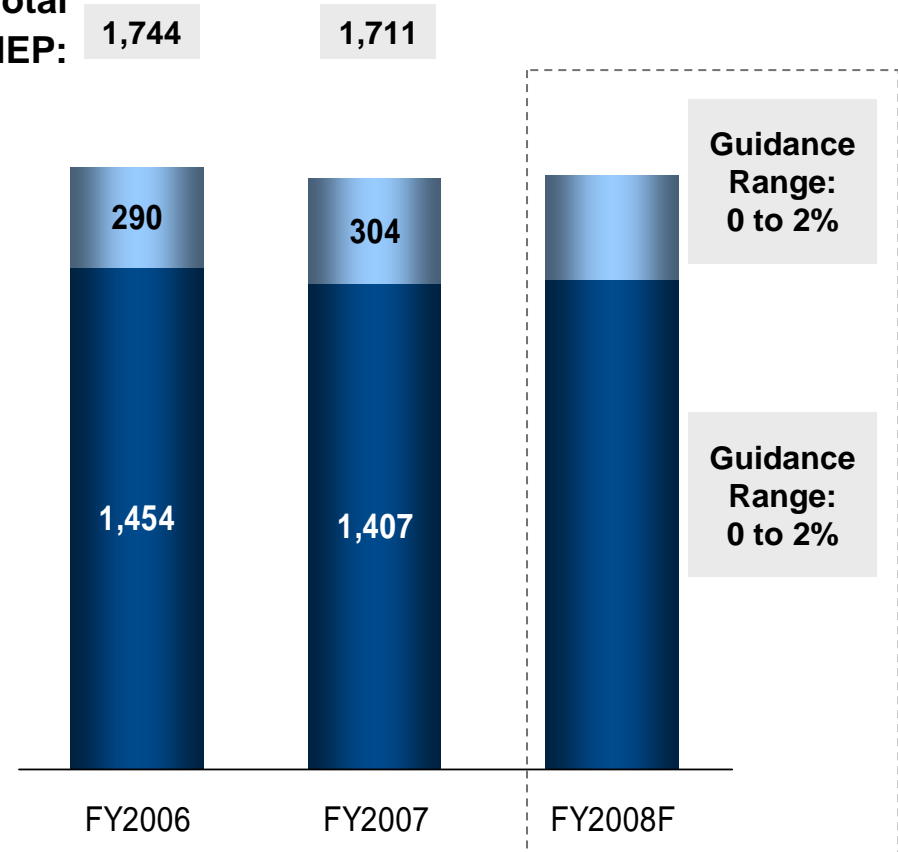
CGU Insurance Gross Written Premium (\$m)

CGU Insurance Net Earned Premium (\$m)

Total
GWP:



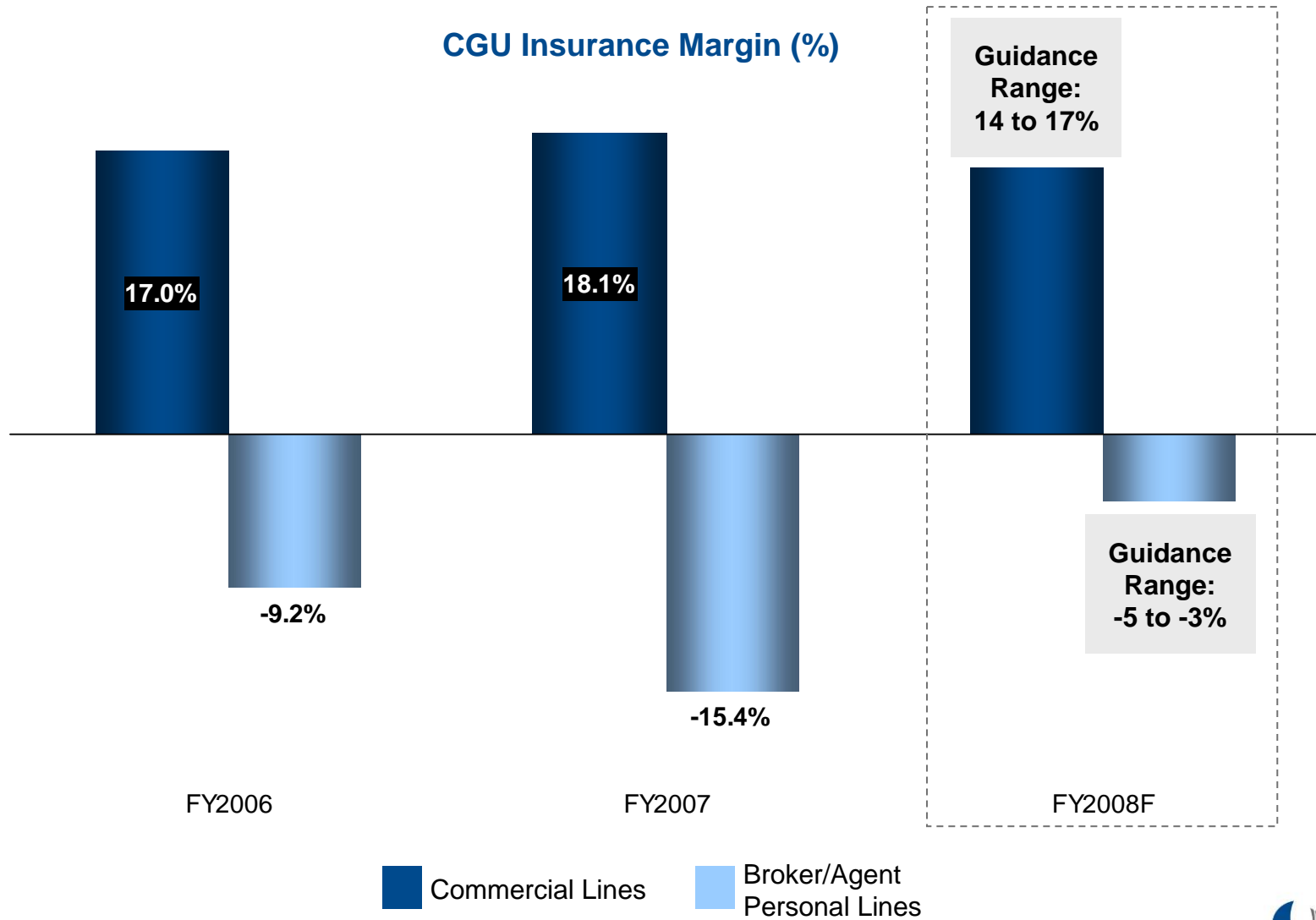
Total
NEP:



■ Commercial Lines

■ Broker/Agent
Personal Lines

OUTLOOK – INSURANCE MARGIN



FOCUS / PRIORITIES

- **The key priorities for the business in FY08**
 - Continue to grow selective portfolios and BusinessPak book
 - Implement selective short-tail rate increases
 - Support retention rates
 - Roll out account management model
 - Refresh eCommerce platform
 - Purchase outstanding interest in NTI

Business Partnerships

Jacki Johnson

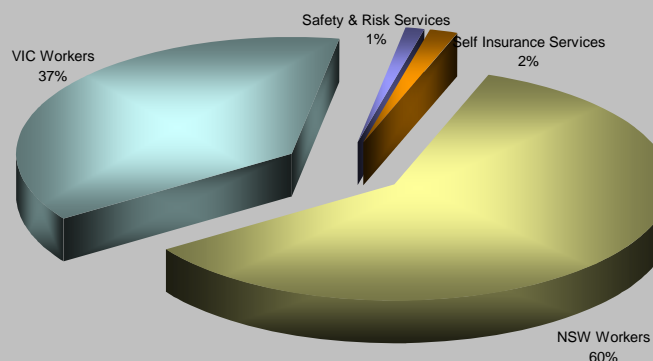
29 October 2007

EXECUTIVE SUMMARY

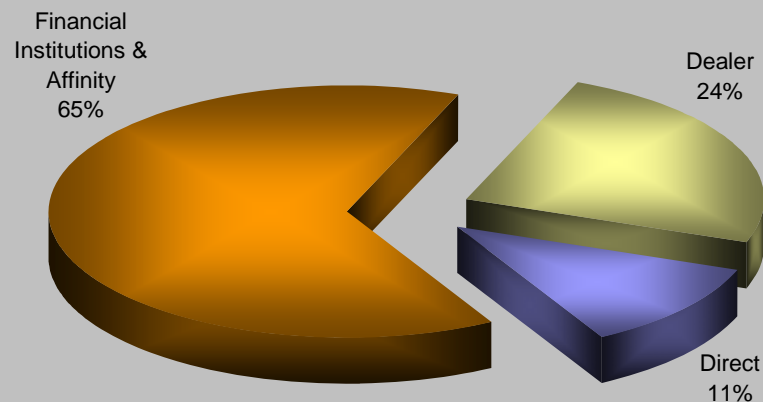
- **Consumer behaviours are changing – purchasing on convenience**
 - This trend increases the relevance of our Affinity channels
- **Positive earnings outlook for Business Partnerships based on:**
 - Implementing rate increases across the home and motor insurance portfolios
 - Full employment makes it easier to improve the return to work outcomes in our Workers' Compensation business, maximising our performance fees
 - Focus on productivity improvements
- **Rigorous and disciplined approach to partnering, focussing on strategic and profitable growth**

BUSINESS UNIT SIZE AND COMPOSITION

Fee Business (RMS) Fee Income FY07
Actual



Affinity GWP by Channel FY07
Actual

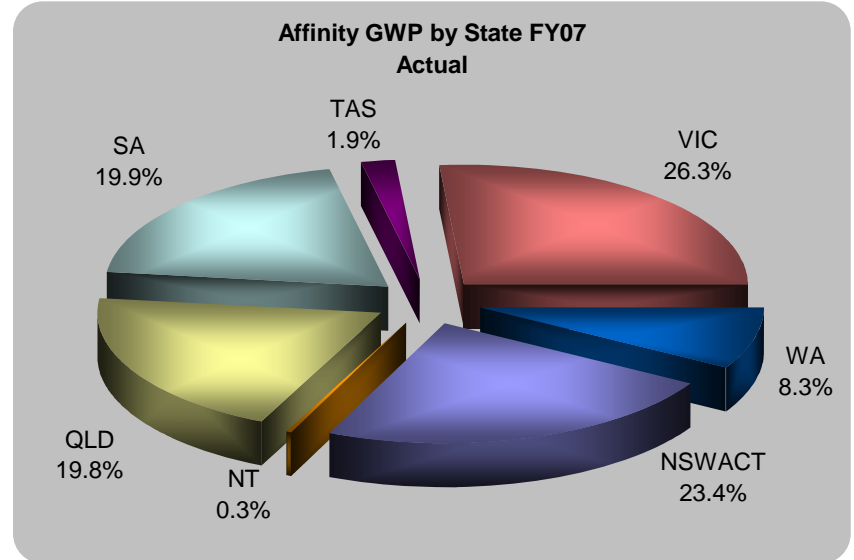
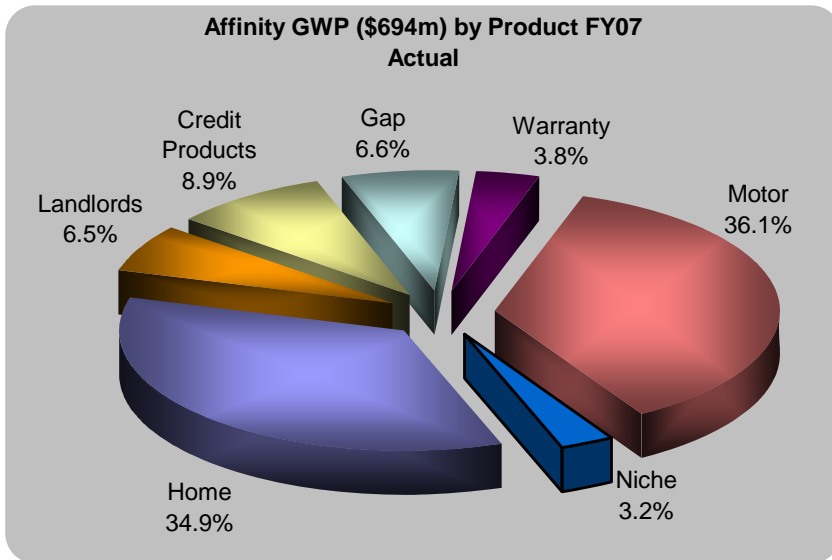


Commentary

- **Fee based income includes NSW and Victoria Workers' Compensation remunerated by:**
 - Service fees driven by market share (proportion of FY08 total fees pool: Vic 77% and NSW 65%)
 - Performance fees driven by return to work outcomes (proportion of FY08 total fees pool: Vic 23% and NSW 35%)

- **Insurance products primarily distributed through financial institutions and motor dealers**
 - Financial Institutions and Affinity - CGU brand
 - Dealer - Swann brand (premier brand in the motor dealer and motor cycle segments)

AFFINITY DIVERSIFIED BY PRODUCT AND STATE



Commentary

- Growth in motorcycle GWP – 23% increase in insurance policies sold in FY07
- Warranty GWP reduced as motor manufacturers shift from extended warranty products

DYNAMIC MARKET CONDITIONS – Creating opportunities and risks

Financial Institutions & Affinity

- Consolidation of medium and smaller sized financial institutions
- Slower growth in new home loans with higher interest rates and slower house price growth¹
- Financial driver to continue to increase non-interest income streams derived through commissions
- Competitors being aggressive with pricing and remuneration offerings to secure market share

Dealer

- Motor dealers becoming listed entities and consolidating with larger Australian-based retailers
- Reduced motor vehicle sales in 2006 compared with 2005 (down 2.6%)² and a shift to smaller vehicles driving down motor premium. Increase in new motorcycle and motor scooter sales for fourth consecutive year (up 20.5%³ from 2005)
- Use of personal finance for new and used cars reduced over the past four years
- Continued competitive pressure on motor dealer remuneration driving acquisition costs higher

Fee Based Businesses

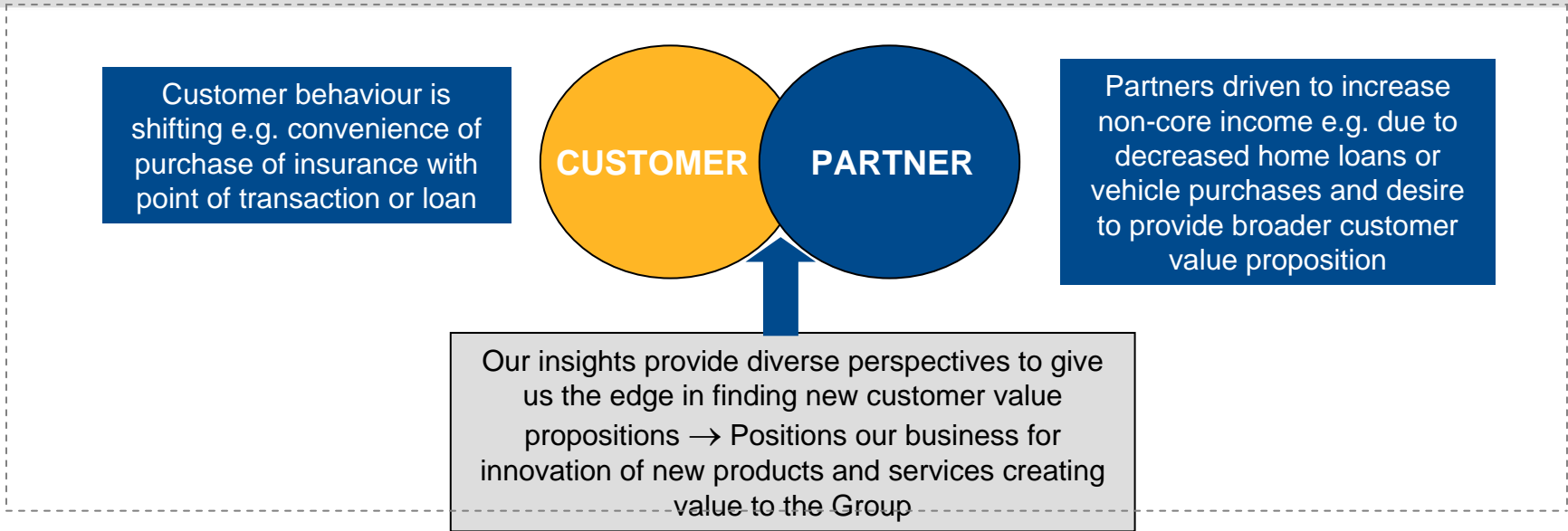
- Harmonisation of state schemes
- Changes in industry mix and Australian workforce demographics changing nature of injury type
- Aggressive activity by competitors to attract market share
- Potential for privatisation in NSW may provide an opportunity to secure additional underwriting premium in this class of business
- Full employment improving 'Return To Work' outcomes

¹ Reserve Bank Bulletin, Loan Approvals, Repayments and Housing Credit Growth, July 2007

² Australian Automotive Intelligence Report (AAIR) February 2007

³ Federal Chamber of Automotive Industries 2007

RATIONALE FOR OUR MARKET PRESENCE



Affinity Channel

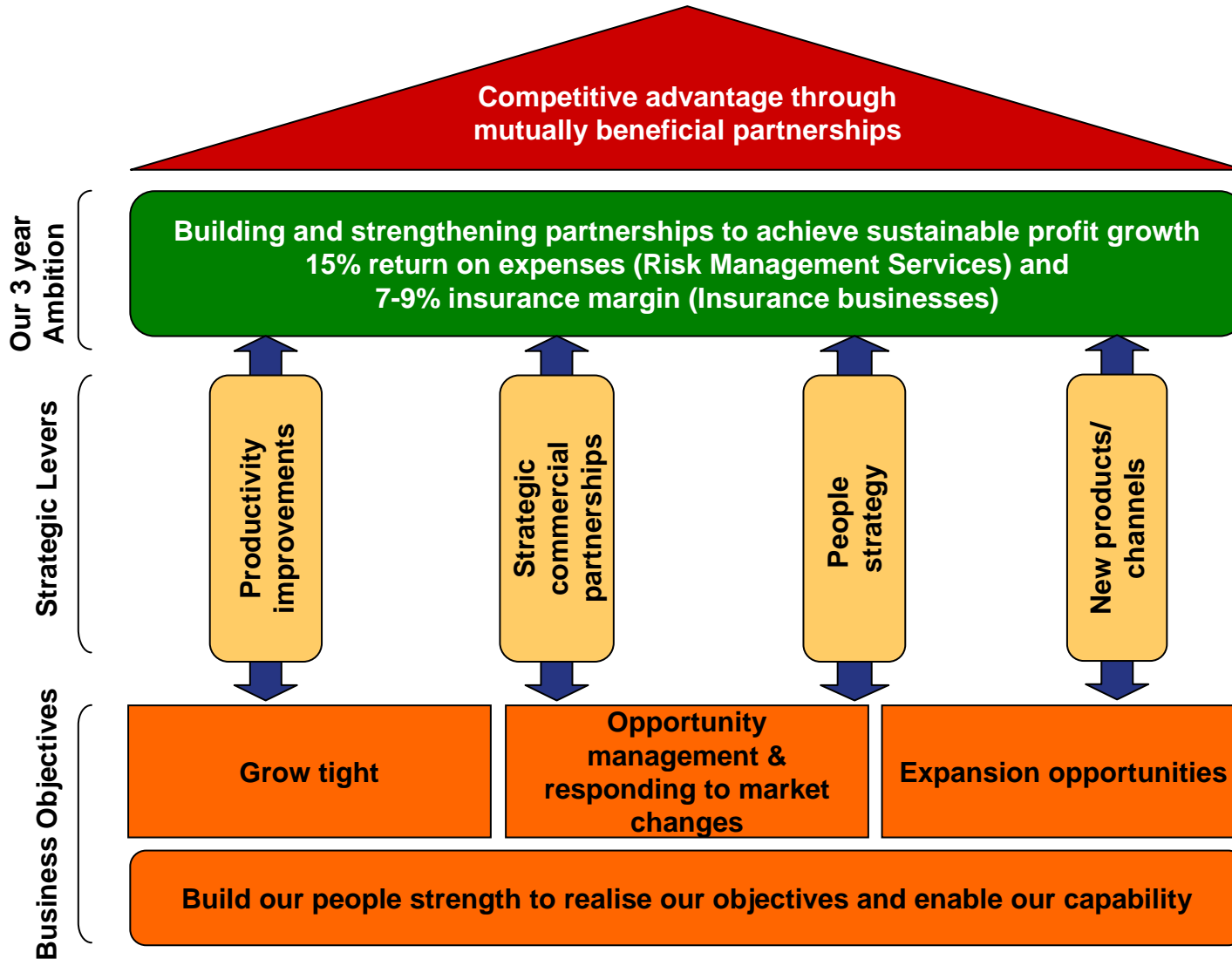
- Represents \$694m GWP in FY07 which would otherwise be unavailable to IAG
- We enable a diversified channel approach reducing the risk of loss of business to the Group with changes in consumer behaviours

Fee Based Businesses

- Return on capital exceeds Group's benchmark - low capital requirement
- Presence in fee based markets allows CGU to provide a national value proposition to employers and brokers
- Strong relationship with the regulators assists us to influence agendas that support the broader Group

BUSINESS PARTNERSHIPS STRATEGY 2007-2010

Competitive advantage through mutually beneficial partnerships



STRONG FOCUS ON STRATEGY AND IMPROVING PROFITABILITY

Productivity improvements

- Mapping and improving processes
- Development of technology strategies
- Achieve further reductions in people turnover

Account management

- Focus on strategic, significant and profitable relationships for existing and new business - increased customer retention with strategic partners
- Salesforce.com implementation to leverage partner base and drive cultural change

Rate increases for Affinity business

- Six monthly review of pricing and product with distributors to ensure sustainable growth and adequate return for all stakeholders
- Retention rates at 90% following recent rate increases
- Further rate increases are scheduled for FI&A in 1H08 and 2H08

Maximise fee based workers' compensation remuneration

- Return to work initiatives to drive improved performance
- Improved monitoring tools to track performance and increase accountabilities
- Securing of market share through account management approach

Development of our people capability

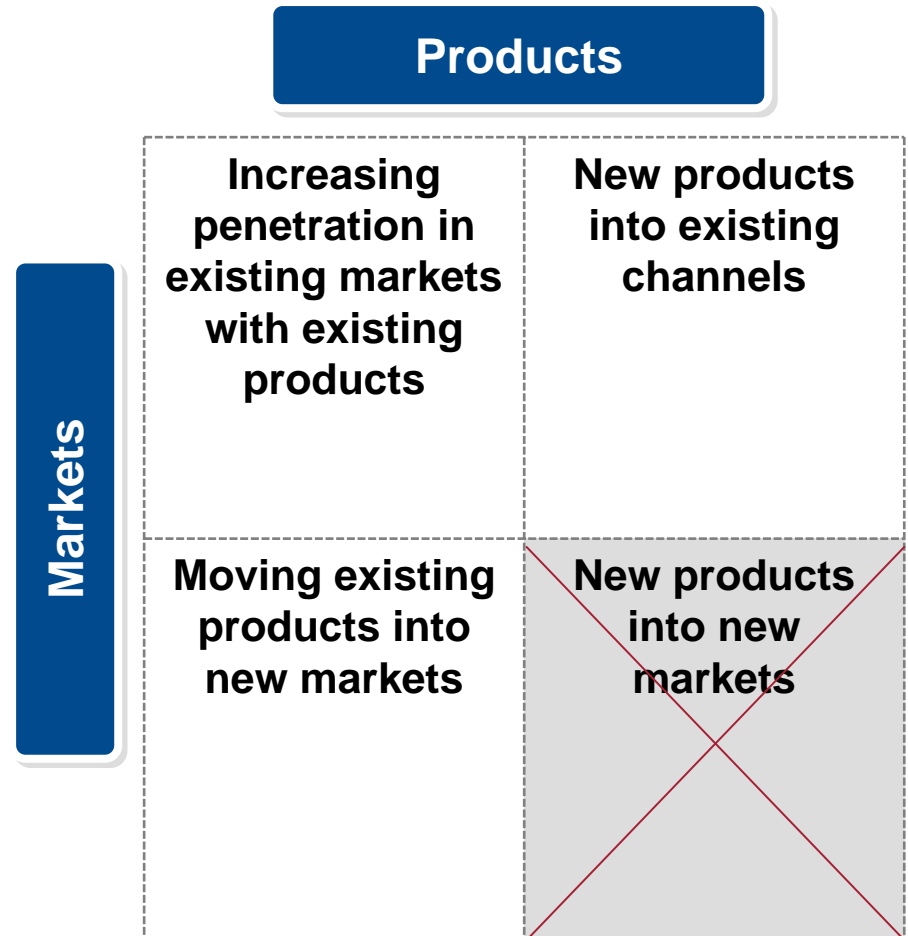
- Develop our leadership and account management capability
- Further develop capability in personal injury management

LEVERAGING EXISTING CAPABILITY INTO DOMESTIC AND INTERNATIONAL MARKETS

- **Our Dealer business demonstrates innovation and rapid speed to market in its new product development:**

- Motorcycle warranty product - launched July 07
- Launch of Beaurepaires branded Tyre & Rim policy - November 07
- Assessment of alternative Motor, Motorcycle and Gap policies is underway - significant sales are not expected in FY08
- New market initiatives such as Marine, Debt Protection and Axa Life extension are being investigated – sales not expected in FY08

- **Our Dealer business transfers capabilities to Asia**



OUTLOOK – AFFINITY BUSINESSES GWP

| | FY06A | FY07A | FY08F |
|------------------|------------|------------|---------------|
| GWP (\$m) | 663 | 694 | 4 - 6% |

Commentary

- **Despite increasing pressure from competitors in the FI&A channel, expect to grow GWP by 4 – 6% through a combination of price increases and initiatives**

OUTLOOK – AFFINITY BUSINESSES UNDERWRITING RESULT

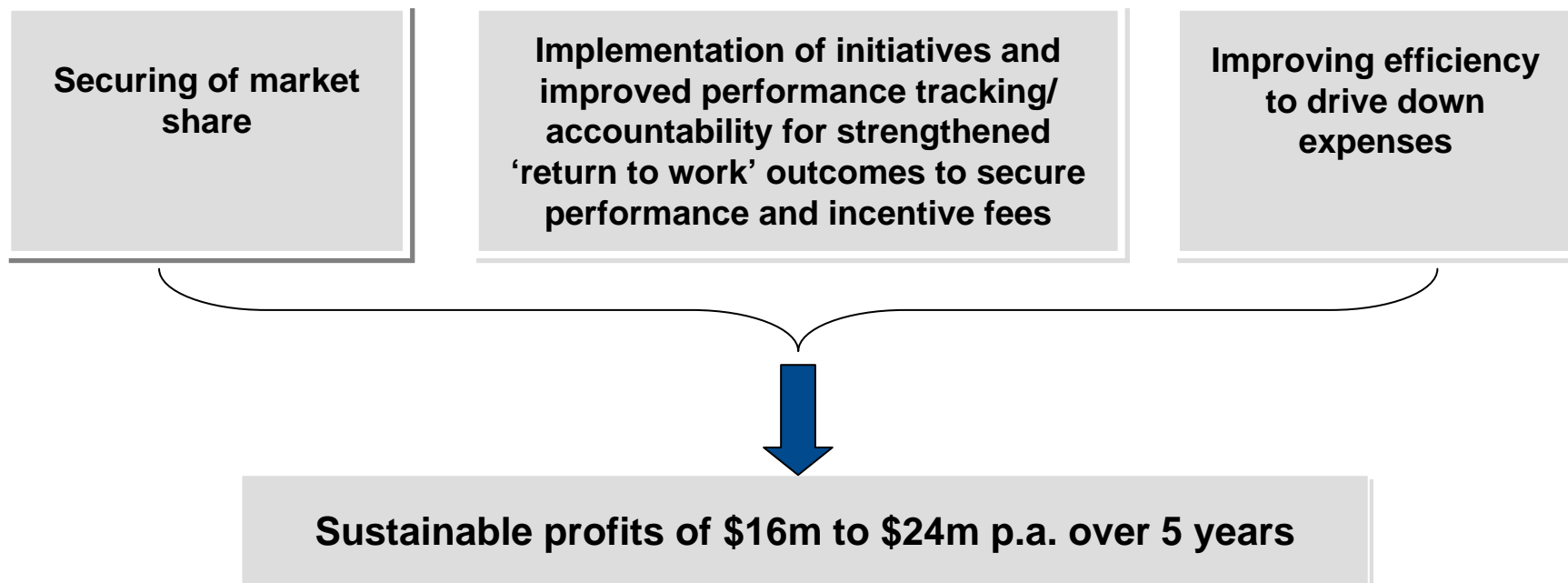
| | FY06A | FY07A | FY08F |
|------------------|-------|-------|--------|
| Insurance margin | 1.3% | 2.1% | 6 - 8% |

Commentary

- Motor portfolio has been experiencing anti-selection bias and has large proportion of older vehicles - increased average claims costs with greater write-offs
- Motor issues addressed in our pricing policy - improved results in 2H08 and for the full year

OUTLOOK – RISK MANAGEMENT SERVICES

Fee based businesses



Commentary

- Significant reduction in prior period payments expected following changes in remuneration models which improved stability in Workers' Compensation schemes - no material prior period payments expected after 1H08
- 1H08 improved and prior period payment lower than FY07
- Our initiatives are focussed on improved and sustainable return on expenses

EXECUTIVE SUMMARY

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IAG Reserving Philosophy & Practice

Tony Coleman

29 October 2007

EXECUTIVE SUMMARY

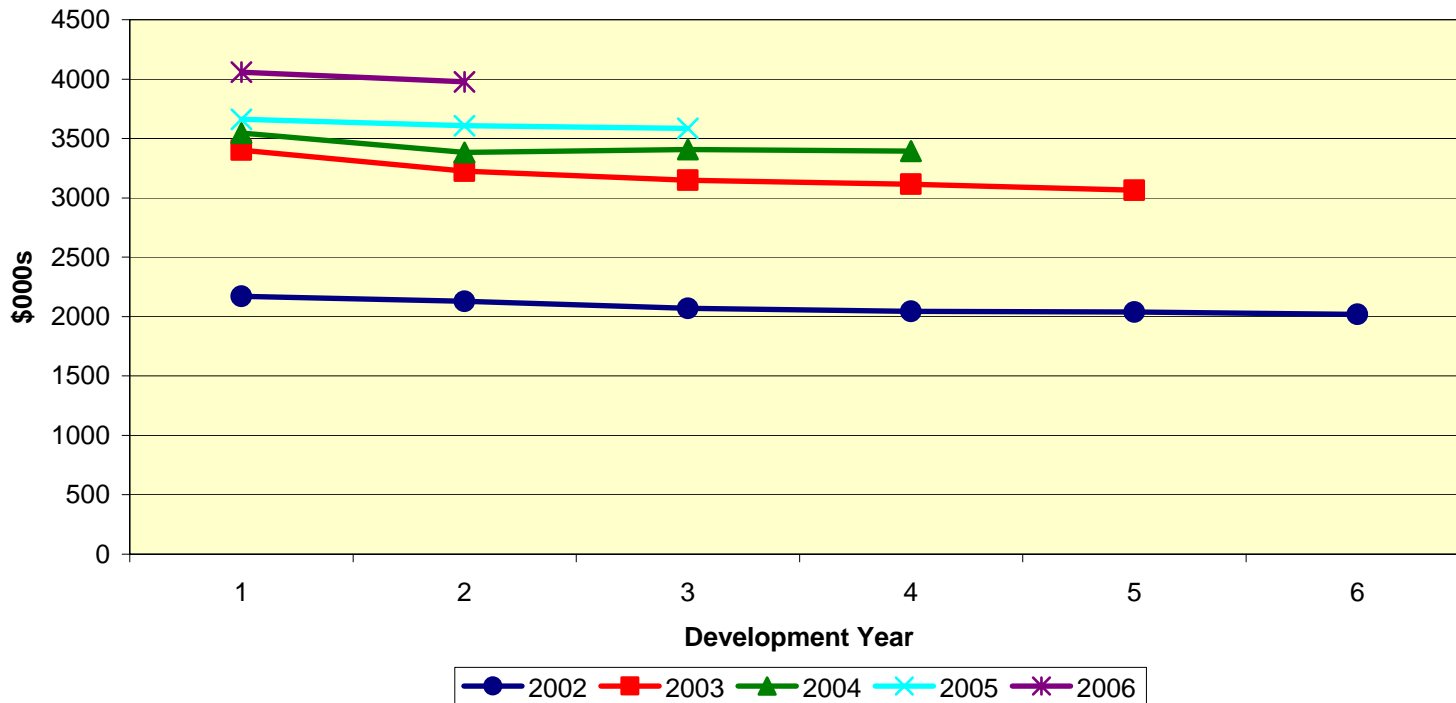
- **Robust reserving processes with a reliable history**
- **Risk margins – understanding the critical issues**
- **Conservative nature of IAG risk margins given capital employed**
- **IAG UK – actuarial capability transfer**

KEY STEPS IN THE RESERVING PROCESS

- **Estimate claims frequency and severity from experience observed, primarily to establish central estimates**
- **Determine suitable probability distributions based on experience to establish potential estimate uncertainty for risk margins**
- **Establish measures of uncertainty**
 - Co-efficient of Variation (CoV) (= Standard Deviation / Mean) (e.g. 15%, 30%)
 - Probability of Adequacy (PoA) (e.g. 75%, 90%)

ROBUST AND RELIABLE CENTRAL ESTIMATES

Development of Ultimate Net Claims Liability (Central Estimate) 2002-2006

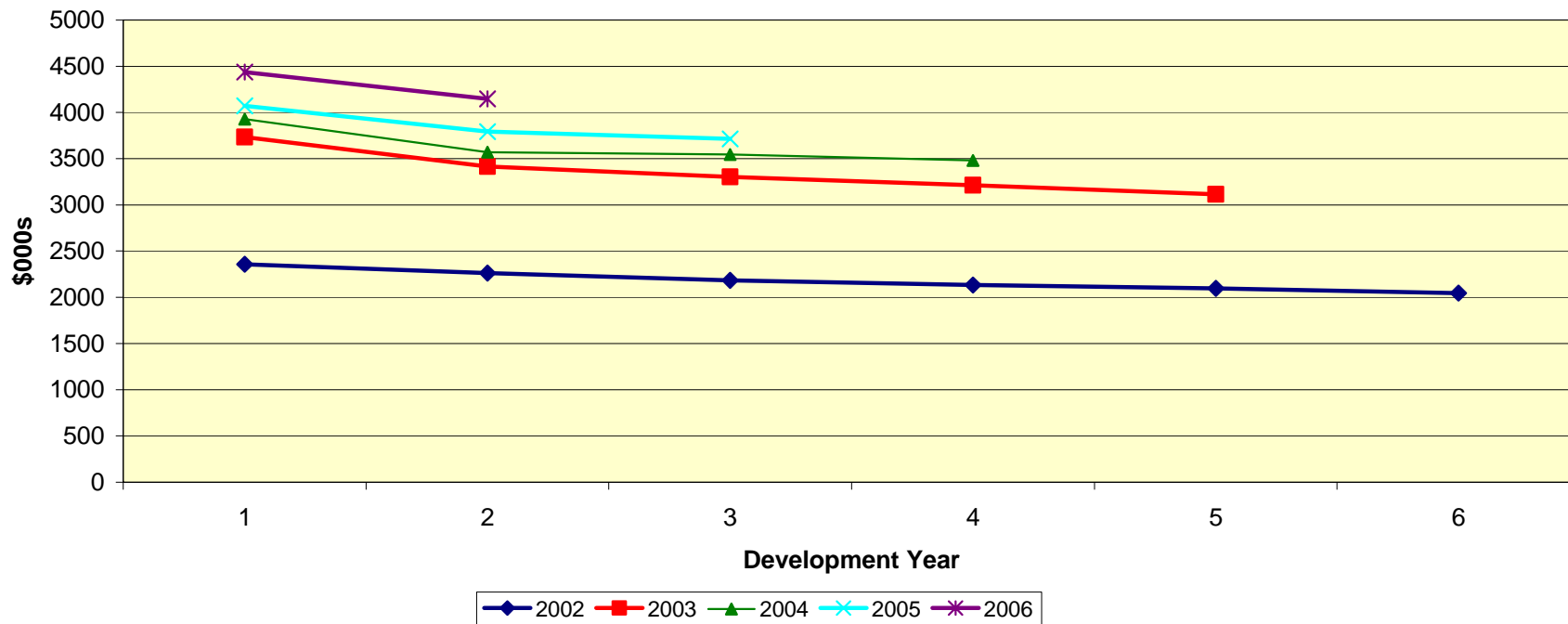


- Trends are all downwards indicating a strong history of prudent reserving approach to central estimates
- Each year is higher than former due to growth in business

Source: IAG FY07 Claims development tables

CONSERVATIVE RESERVING WITH RISK MARGINS INCLUDED

Development of Ultimate Net Claims Liability (Provision) 2002-2006



- Trends are steeper downwards (than on the previous slide) as would be expected given provision basis

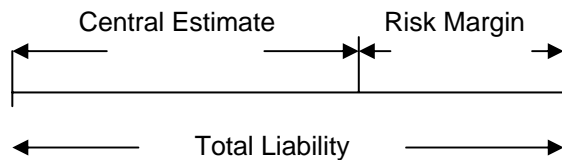
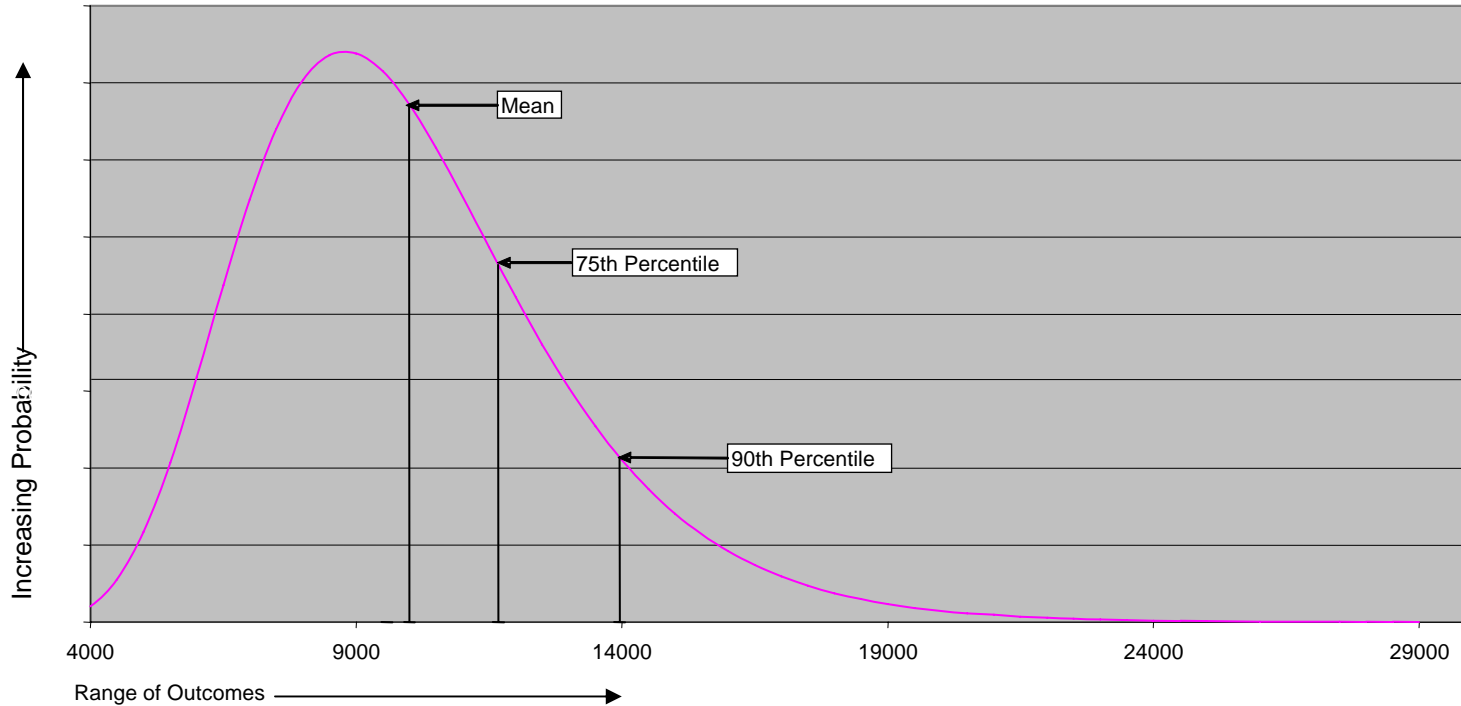
RISK MARGINS – KEY CONCEPTS

- **Outcomes of risks from individual policies are unknown when underwritten**
- **However, when many similar risks are underwritten, expected results of total portfolio become more predictable**
- **Claims are driven by:**
 - Frequency (or probability) of a claim event occurring, and
 - Severity (or size) of a claim if it occurs
- **Risks inherent in different classes of insurance vary over a spectrum**
 - High frequency / low severity (e.g. motor) – outcomes relatively easy to predict reliably
 - Low frequency / high severity (e.g. earthquake) – outcomes are harder to predict reliably
- **These risk differences can be measured and quantified**

CENTRAL ESTIMATE & RISK MARGIN OF OUTSTANDING CLAIMS

Illustration

Lognormal Distribution
(CoV = 0.3)

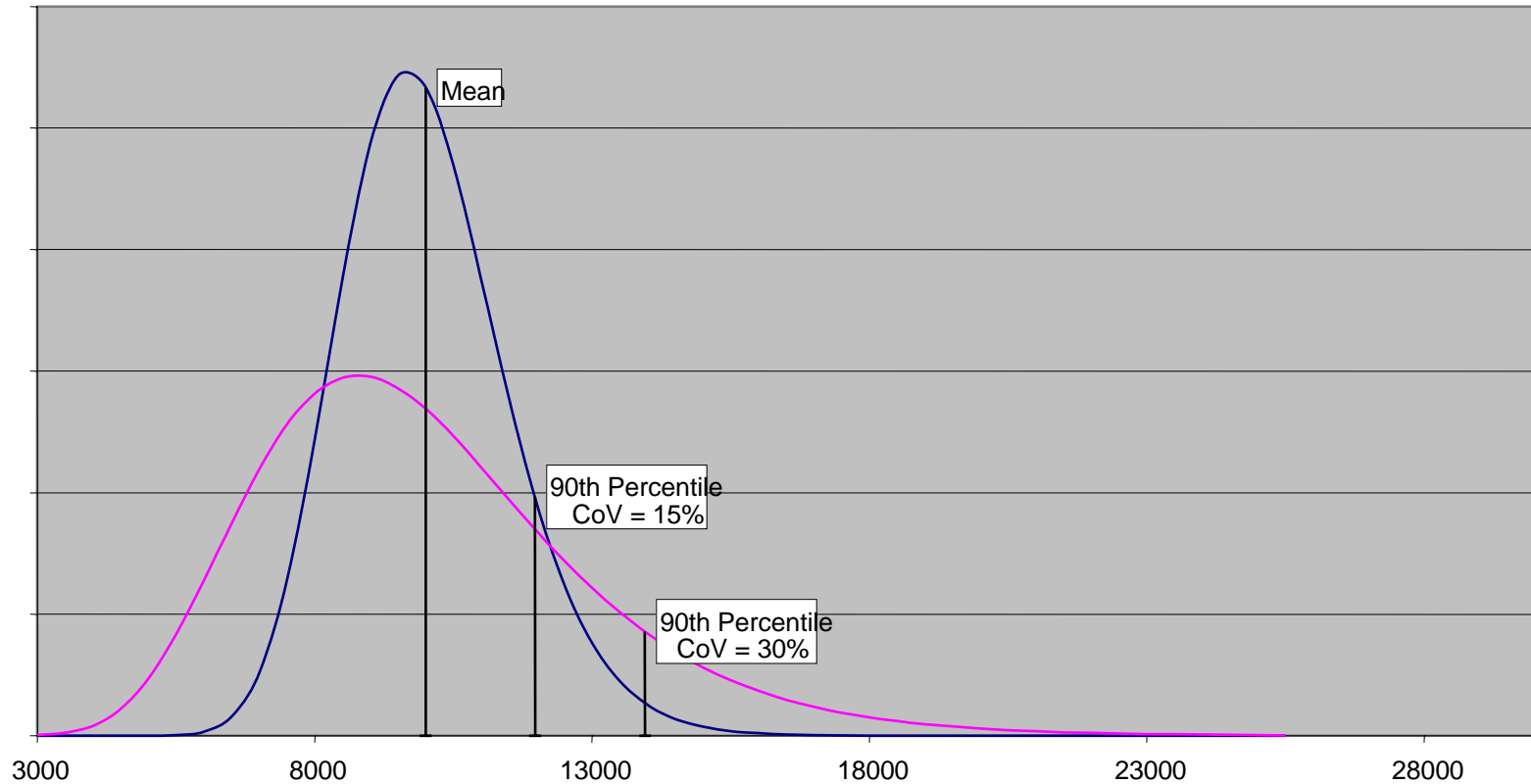


Probability of Adequacy (PoA) = the area under the curve to the left of the liability outcome selected

CENTRAL ESTIMATE & RISK MARGIN OF OUTSTANDING CLAIMS

Illustration

Lognormal Distributions



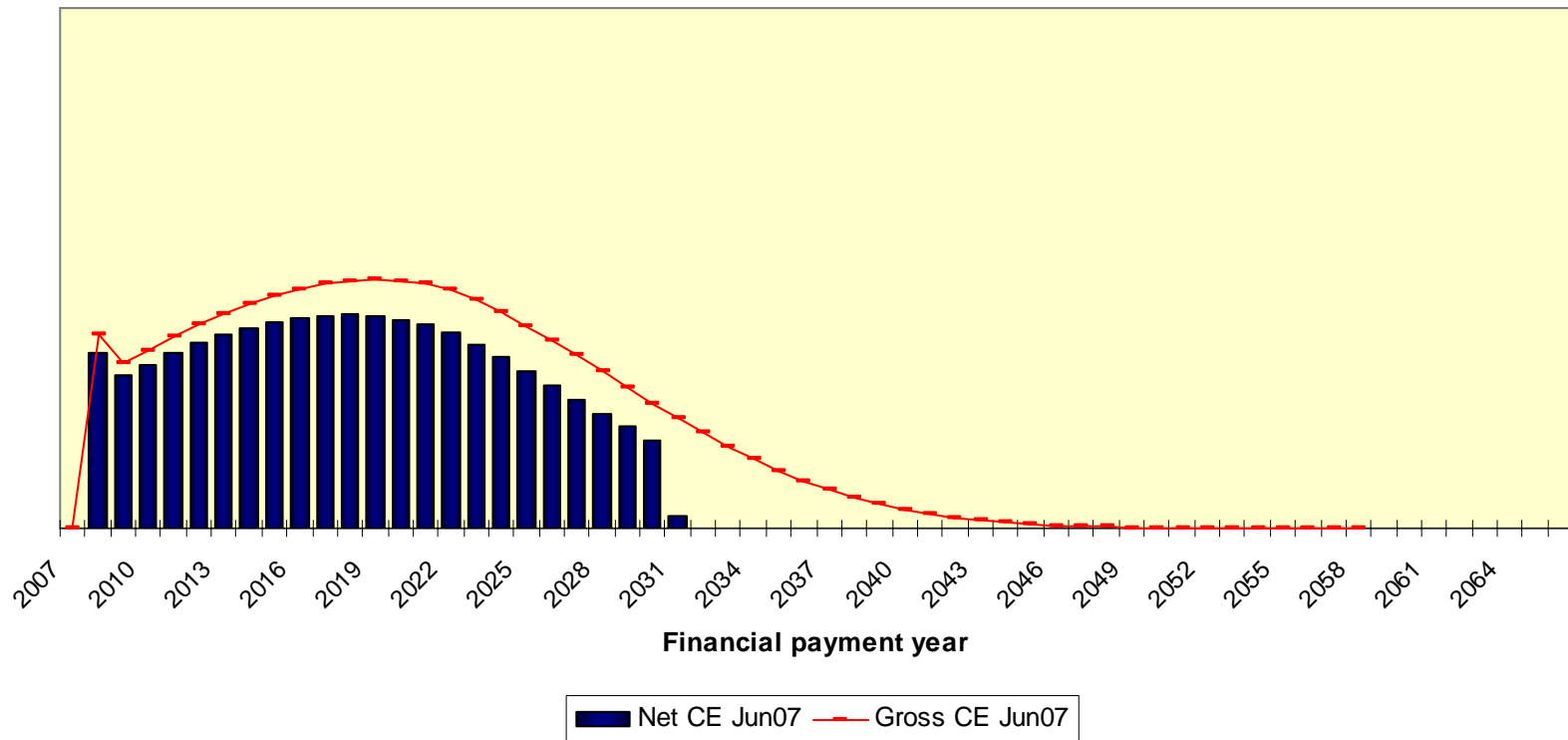
Both portfolios have the same mean, but Pink is riskier than Blue, so the Pink risk margin needs to be higher to reach the same PoS

QUANTIFYING RISK MARGINS

- **Quantified by use of a risk measure, generally Coefficient of Variation (CoV) = Std. Dev. / Mean**
- **Size of CoV indicates uncertainty of risk for same PoS**
- **A higher CoV = a higher risk margin**
- **Hierarchy of CoVs exists based on relative variability by class**
- **Generally, the longer the “tail” the higher the CoV and risk margin should be (more time for things to change)**

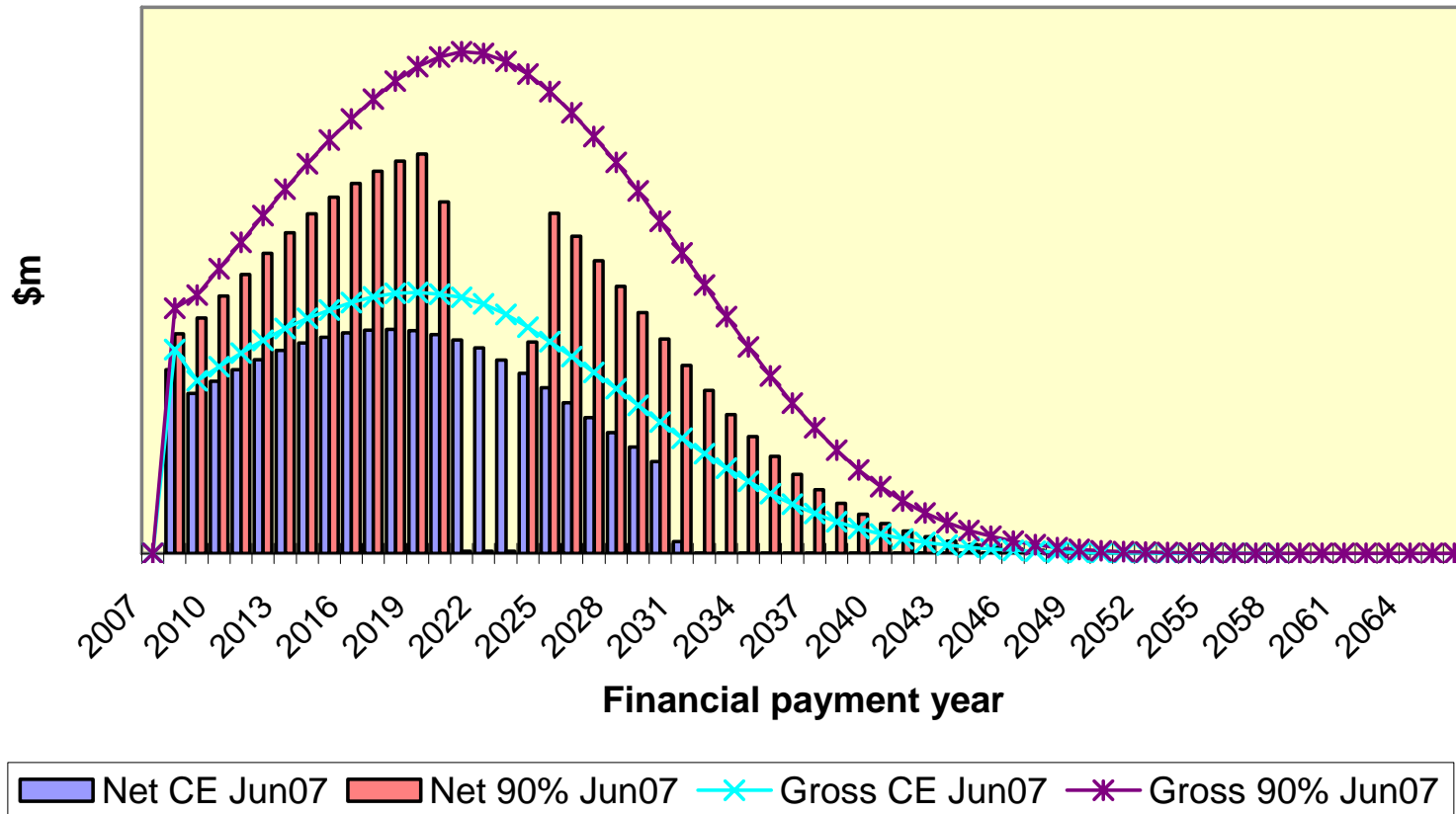
RISK MARGINS – REINSURANCE IMPACT

Projected asbestos cashflows (undiscounted)



RISK MARGINS – REINSURANCE IMPACT

Projected asbestos cashflows (undiscounted)



REINSURANCE LOWERS RISK MARGINS

Derived from IAG data

| | Risk margin % |
|-------|------------------|
| Gross | 64% |
| Net | 32% |

Reinsurance arrangements can have a significant impact on the size of risk margins

CAPITAL AND RISK - A SIMPLE ILLUSTRATION

Assume an insurer commits to pay claims based on the roll of a dice - 100 rolls representing the uncertain underwriting results for 100 “policies” :

If 1 is result, insurer pays a claim of \$1

If 2 is result, insurer pays a claim of \$2

•

etc.

•

If 5 is result, insurer pays a claim of \$5, BUT

If 6 is result, there is no claim at all

Assume the dice can be thrown at any time within 1 year AND that the resulting claims are to be paid at end of 1 year

WHAT SHOULD THE LIABILITY IN THE BALANCE SHEET BE BEFORE THE DICE IS ROLLED?

- Insurer's maximum / minimum payout is \$500 / Nil
- Insurer's expected payout is \$250
- Assume the premium has been set at \$3 per throw – does that impact the liability?
- Assume for simplicity that there are no operational expenses
- The higher the liability determined the greater the probability will be that the liability will be adequate to pay all claims
- So, if you are a director of the insurer, what liability is used?

THE “COST OF CAPITAL” CONCEPT

- **The insurer will also need at least \$200 of capital (net assets) available for one year before receiving the \$300 premium on day one, to avoid the risk of insolvency**
- **Assume the risk free interest rate is 4% p.a.**
- **If investors require a total return on equity of 10% p.a. before tax to provide the capital for one year, the cost of that \$200 of capital will be \$20**
- **Hence, in this simple example, the exit value would be = $(\$250 + \$20) / 1.04 = \$260$**

THE PRE-CLAIM LIABILITY WILL BE

- **\$300** if using unearned premium only
- **\$240** ($=\$250 / 1.04$) if using central estimate only
- **\$252** ($=\$262 / 1.04$) if using 75% PoA
- **\$262** ($=\$272 / 1.04$) if using 90% PoA
- **\$260** if using the “Cost of Capital” concept

PROFIT OF INSURER

- **\$50 “Expected” average profit over whole process, plus investment earnings on funds held over 1 year**
- **\$Nil on Day 1 under AASB 1023 using unearned premium**
- **\$48 on Day 1 for 75% PoA under IASB proposal**
- **\$38 on Day 1 for 90% PoA under IASB proposal**
- **\$40 on Day 1 if using the “Cost of Capital” concept**
- **Actual profit will be brought to account once all 100 throws of dice have been completed – this will depend upon the actual total of claims paid and could be anywhere between \$300 and (\$200), plus investment earnings on funds held**

WHAT IS THE EMERGING IASB VIEW?

- **Reported profitability should be based on outstanding claims liabilities that are based on**
 - Realistic central estimates
 - Risk margins calibrated by real cost of capital employed to support liabilities rather than by PoA (so a target of, say, 90% PoA becomes less relevant)
 - Explicit diversification between portfolios may not be allowed in risk margins or liabilities (unless IASB changes its view on this) – but may become implicitly incorporated

LINKING PoA WITH IASB “EXIT” VALUE

- **Compare for typical portfolios**

- Net present value (at cost of capital in excess of risk free rate) of requirement to hold funds in excess of the central estimate up to the 99.5th percentile of outstanding claims (assumed solvency level)
- This will be equal to the initial capital needed less the NPV of expected capital releases as claims are settled after allowing for a risk free return for matching assets

- **Assuming**

- CoV's of claims log-normally distributed (i.e., skewed outcomes)
- Constant over run-off of claims
- Realistic returns on capital (4% and 6% p.a. over risk free of 5% p.a.)
- Using short, medium and long-tailed classes (CoVs 10%, 20% and 30% respectively)

RMWG* COMPARISONS FOR NON-LIFE RISK MARGIN PoA EQUIVALENT TO COST OF CAPITAL

| Term | Typical AA Rated | Riskier AA Rated |
|--------|------------------|------------------|
| Short | 62% | 67% |
| Medium | 77% | 82% |
| Long | 84% | 88% |

- **Results are very sensitive to**
 - Balance between short vs. medium vs. long-tail exposure
 - True underlying risk levels

* RMWG is the Risk Margins Working Group of the International Actuarial Association

LINKING PoA WITH EXIT VALUE – CONCLUSIONS

- **PoA equivalent to cost of capital varies significantly by duration of business (and CoV)**
 - Around 60% - 70% for short-tail
 - Around 70% - 80% for medium-tail
 - Around 80% - 90% for long-tail
- **Average over a ‘balanced’ portfolio will be around 75% PoA**
- **For IAG, the difference between 75% PoA and current 90% PoA (diversified) is significant**

Note that this impact will be a lot smaller if an insurer is heavily reinsured, or has low risk margins already

THE “COST OF CAPITAL” IMPACT

- Depending upon interpretation and using a 75% average PoA, IAG’s outstanding claim liabilities as at 30 June 2007 could change

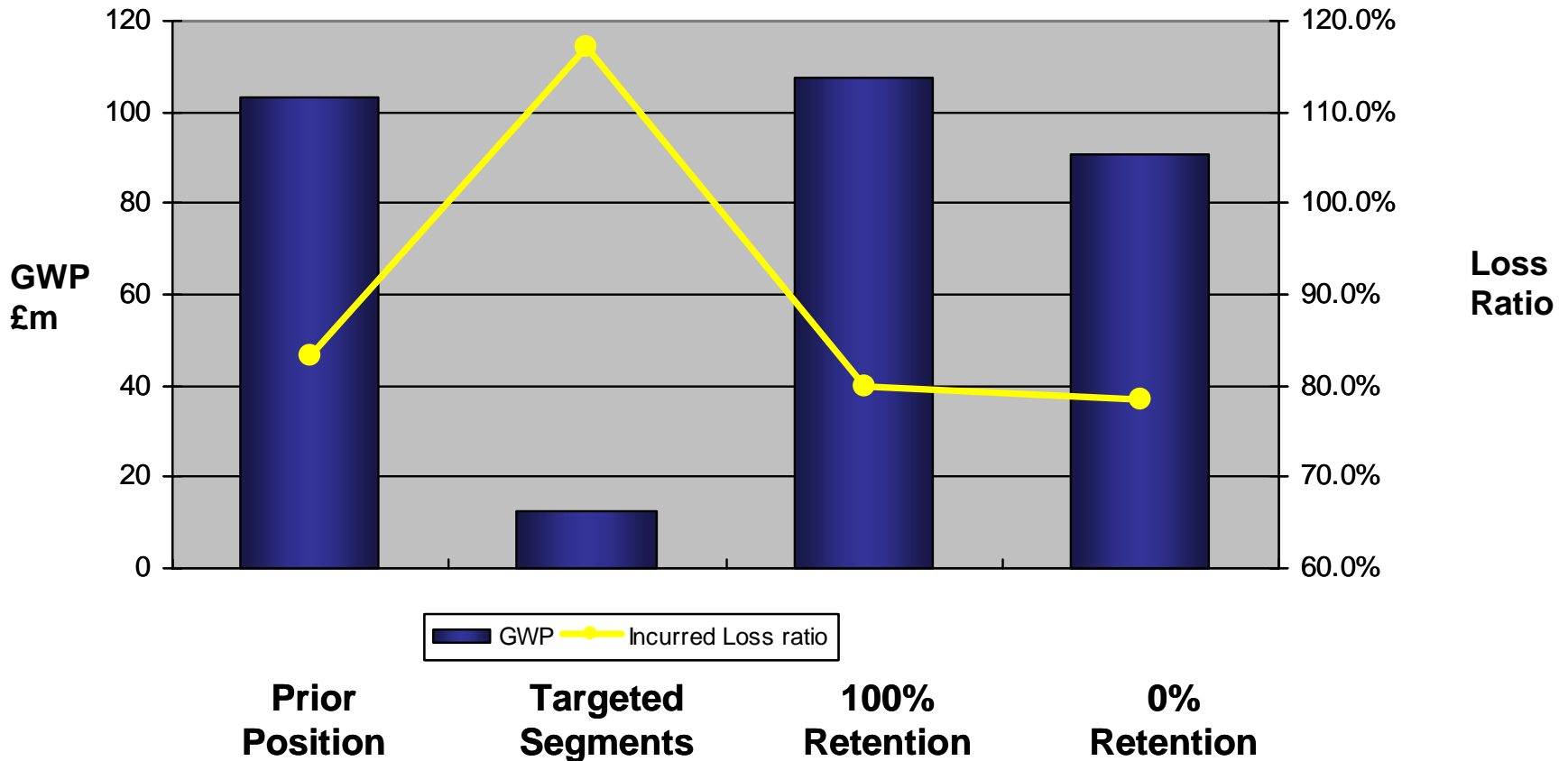
| | | | |
|--------|---------------|----|-------------|
| From | \$6,799m | | |
| | Undiversified | | Diversified |
| To | \$6,504m | | \$6,188m |
| Change | \$295m | to | \$611m |

ACTUARIAL CAPABILITY TRANSFER - IAG UK

- **Need for actuarial capability transfer identified at Due Diligence**
- **Previously no in-house actuarial capability in either Hastings or EIG – complete reliance on external actuaries**
- **Due diligence identified need to materially improve reserving processes**
- **Recruited a CRO & a Chief Actuary for IAG UK (2 people)**
- **Seconded staff with extensive experience in pricing; data segmentation; reserving and actuarial / statistical risk management**
- **Initiated a major underwriting, pricing and risk margin review**
- **New rating “engine” being developed for 2008 to further refine pricing**

NEW RISK RATING IN ADVANTAGE

Geographical and Demographic clusters



- Represents the impact on the portfolio if one small under-performing segment is re-priced and either retained in full (100% retention) on renewal or cancelled

EXECUTIVE SUMMARY

- **Robust reserving processes with a reliable history**
- **Risk margins – understanding the critical issues**
- **Conservative nature of IAG risk margins given capital employed**
- **IAG UK – actuarial capability transfer**

APPENDIX: CDT – NET CENTRAL ESTIMATE BASIS

| IAG Group - Net Central Estimate basis | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|
| \$m | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Ultimate Net Claims Liability (1) | | | | | | | |
| At end of yr of occurrence | 2,171 | 3,401 | 3,546 | 3,661 | 4,057 | 5,264 | |
| One year later | 2,130 | 3,224 | 3,383 | 3,607 | 3,975 | | |
| Two years later | 2,071 | 3,149 | 3,407 | 3,586 | | | |
| Three years later | 2,045 | 3,115 | 3,393 | | | | |
| Four years later | 2,039 | 3,063 | | | | | |
| Five years later | 2,018 | | | | | | |
| Current Estimate | 2,018 | 3,063 | 3,393 | 3,586 | 3,975 | 5,264 | |
| Cumulative Net Payments to Date (2) | 1,874 | 2,783 | 2,926 | 2,890 | 3,043 | 2,552 | |
| Outstanding Net Claim Liability (3) = (1) - (2) | 144 | 280 | 467 | 696 | 931 | 2,712 | 5,231 |
| Discount effect (4) | -26 | -42 | -69 | -105 | -140 | -261 | -644 |
| Discounted Outstanding Net Claim Liability | 118 | 238 | 398 | 591 | 791 | 2,451 | 4,587 |

APPENDIX: CDT – NET CENTRAL ESTIMATE BASIS

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------|------|------|------|------|------|
| Ultimate Net Claims Liability (1) | | | | | | |
| At end of yr of occurrence | | | | | | |
| One year later | -2% | -5% | -5% | -1% | -2% | |
| Two years later | -3% | -2% | 1% | -1% | | |
| Three years later | -1% | -1% | 0% | | | |
| Four years later | 0% | -2% | | | | |
| Five years later | -1% | | | | | |
| Overall change | -7% | -10% | -4% | -2% | -2% | |
| Average rate change p.a. | -1% | -3% | -1% | -1% | -2% | |
| Average rate change p.a. from 2006 CDT | -2% | -3% | -2% | -2% | | |

APPENDIX: CDT –NET PROVISION BASIS

| \$m | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|-------|-------|-------|-------|-------|-------|-------|
| Ultimate Net Claims Liability (1) | | | | | | | |
| At end of yr of occurrence | 2,359 | 3,733 | 3,927 | 4,071 | 4,438 | 5,767 | |
| One year later | 2,263 | 3,415 | 3,572 | 3,794 | 4,147 | | |
| Two years later | 2,184 | 3,303 | 3,546 | 3,715 | | | |
| Three years later | 2,133 | 3,214 | 3,480 | | | | |
| Four years later | 2,095 | 3,115 | | | | | |
| Five years later | 2,045 | | | | | | |
| Current Estimate | 2,045 | 3,115 | 3,480 | 3,715 | 4,147 | 5,767 | |
| Cumulative Net Payments to Date (2) | 1,874 | 2,783 | 2,926 | 2,890 | 3,043 | 2,552 | |
| Outstanding Net Claim Liability (3) = (1) - (2) | 171 | 332 | 554 | 825 | 1,104 | 3,215 | 6,201 |
| Discount effect (4) | -31 | -50 | -82 | -124 | -166 | -310 | -763 |
| Discounted Outstanding Net Claim Liability | 140 | 282 | 472 | 701 | 938 | 2,905 | 5,438 |

APPENDIX: CDT – NET PROVISION BASIS

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------|------|------|------|------|------|
| Ultimate Net Claims Liability (1) | | | | | | |
| At end of yr of occurrence | | | | | | |
| One year later | -4% | -9% | -9% | -7% | -7% | |
| Two years later | -3% | -3% | -1% | -2% | | |
| Three years later | -2% | -3% | -2% | | | |
| Four years later | -2% | -3% | | | | |
| Five years later | -2% | | | | | |
| Overall change | -13% | -17% | -11% | -9% | -7% | |
| Average rate change p.a. | -3% | -4% | -4% | -4% | -7% | |
| Average rate change p.a. from 2006 CDT | -3% | -5% | -5% | -7% | | |

Morning Tea

Webcast will resume shortly

UK

Neil Utley

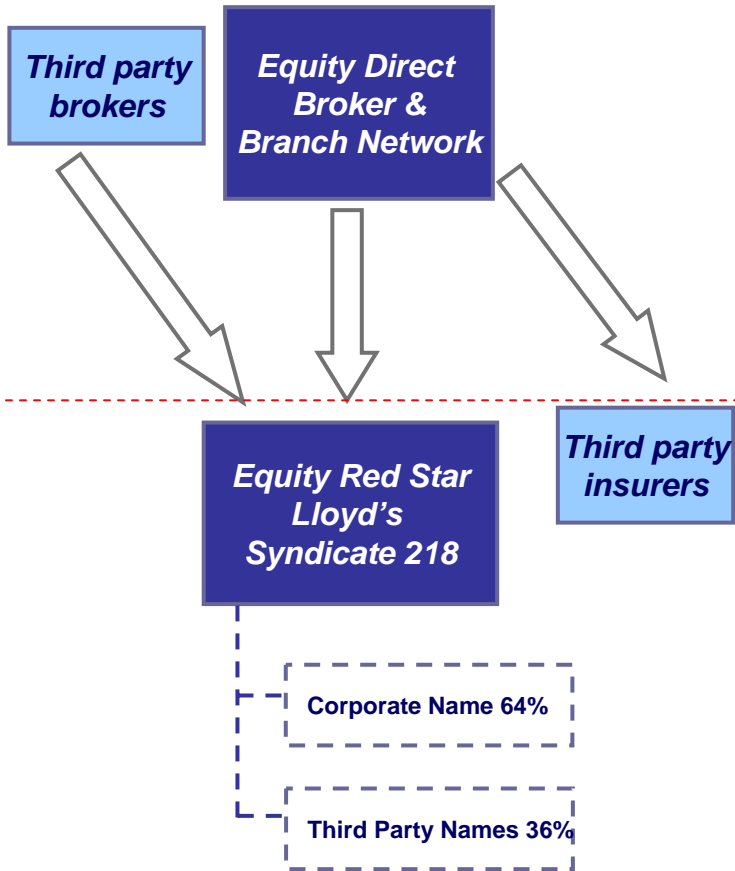
29 October 2007

EXECUTIVE SUMMARY

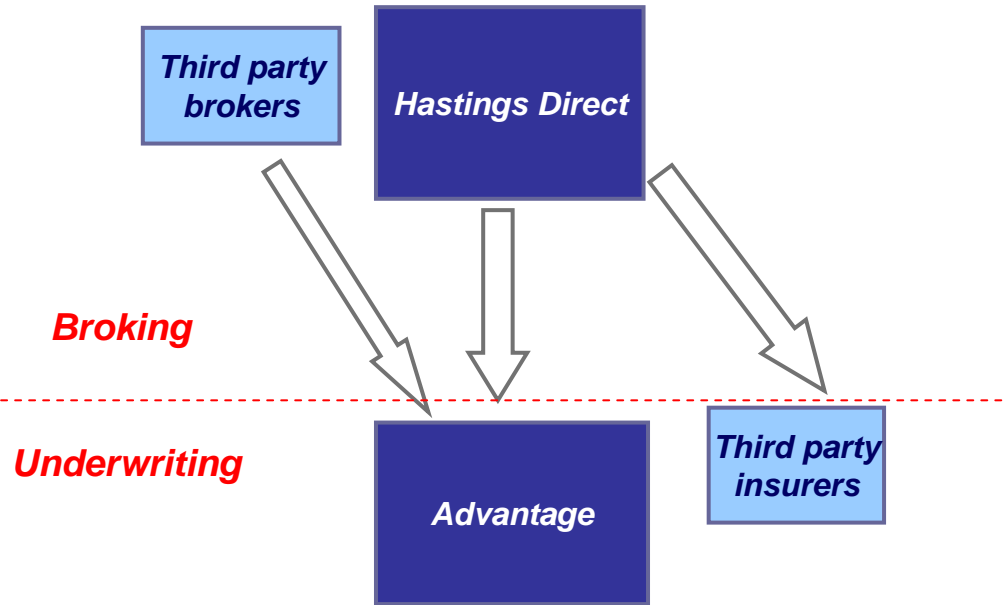
- **Quality assets well positioned in a large market**
- **Market soft but improving**
- **Integration of UK businesses to drive efficiencies**
- **Positioning business for market upturn**

IAG UK ASSETS ACQUIRED IN FY07

Equity Insurance Group



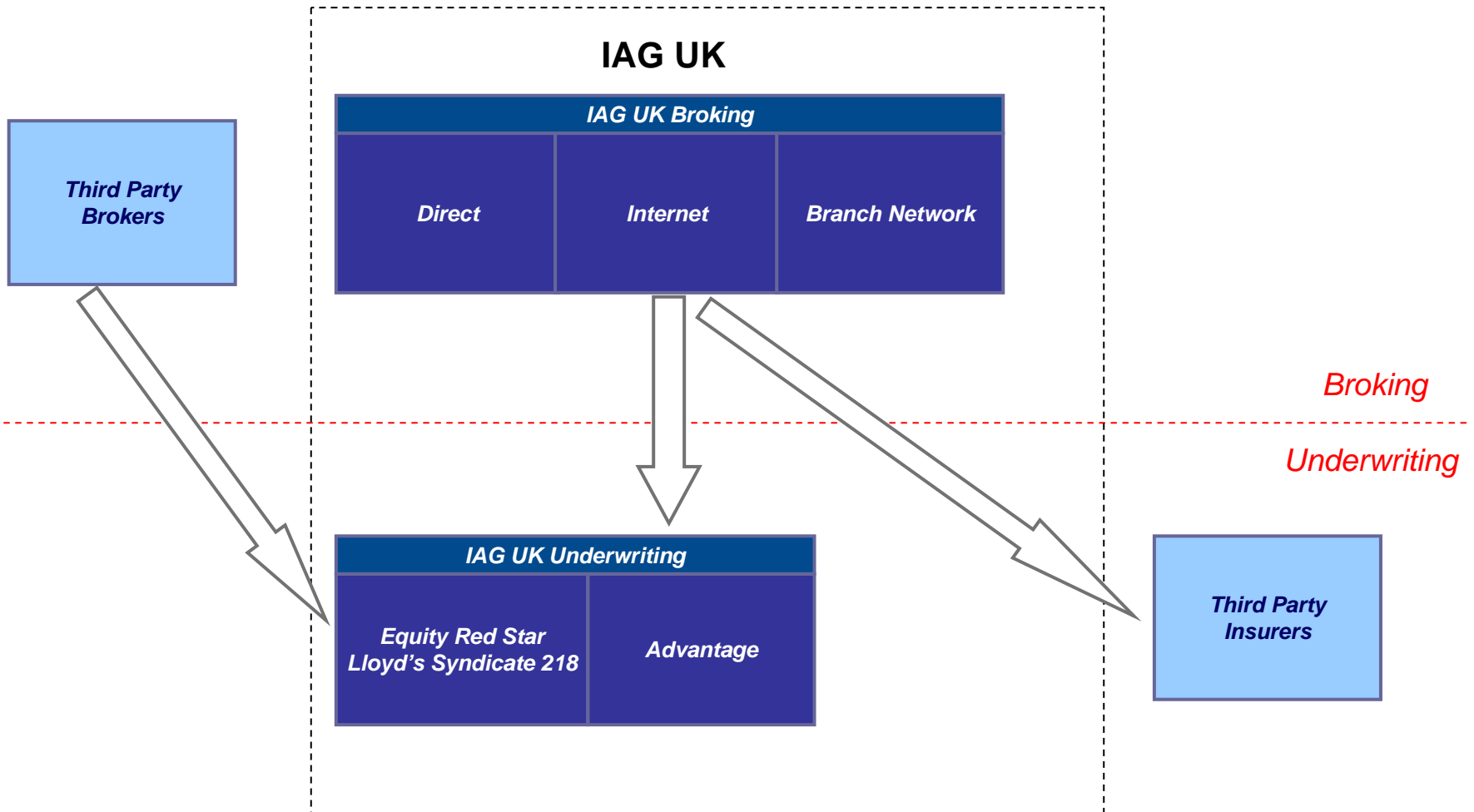
Hastings Direct and Advantage



- Integration process well underway
- Single management team
- Leveraging IAG expertise

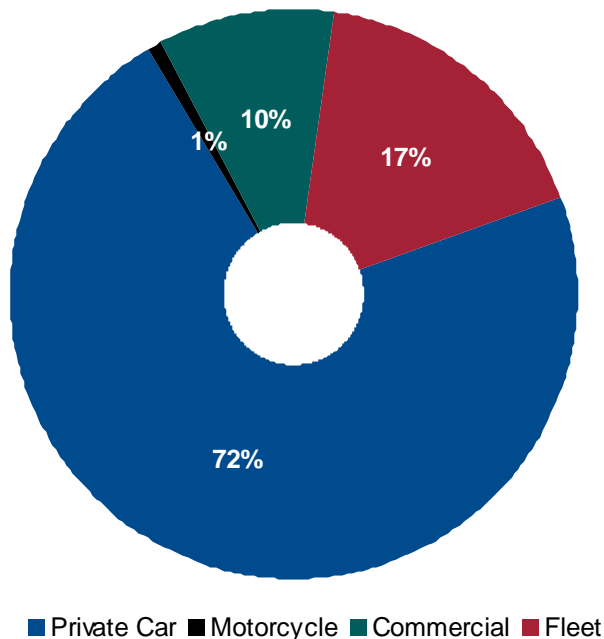


IAG UK – MOVING TO AN INTEGRATED PLATFORM



UK MOTOR MARKET BOTTOMING OUT

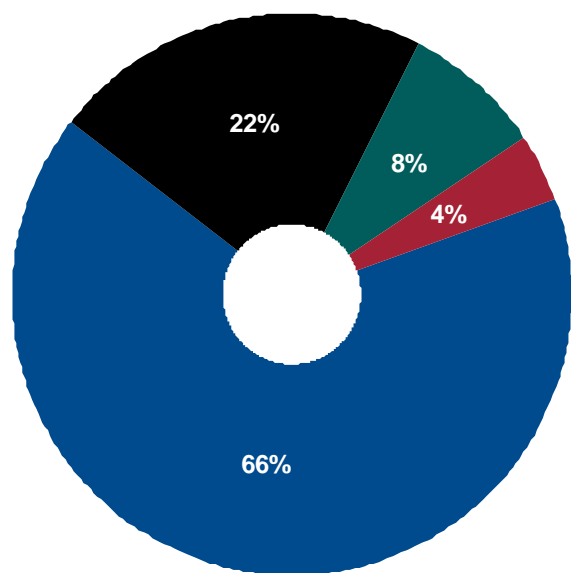
Motor market: split of business



- £13bn motor GWP in 2006
- Motor market is 72% private car
- CY06 overall COR of 111%, before prior year releases of 10%
- Second quarter rate rises ahead of claims by 1%
- Specialist market segments performing stronger than the private car market with better loss ratios
- Market turning but remains tough

SHIFTING DYNAMICS OF DISTRIBUTION PRESENT OPPORTUNITIES

**Motor market:
distribution channels**

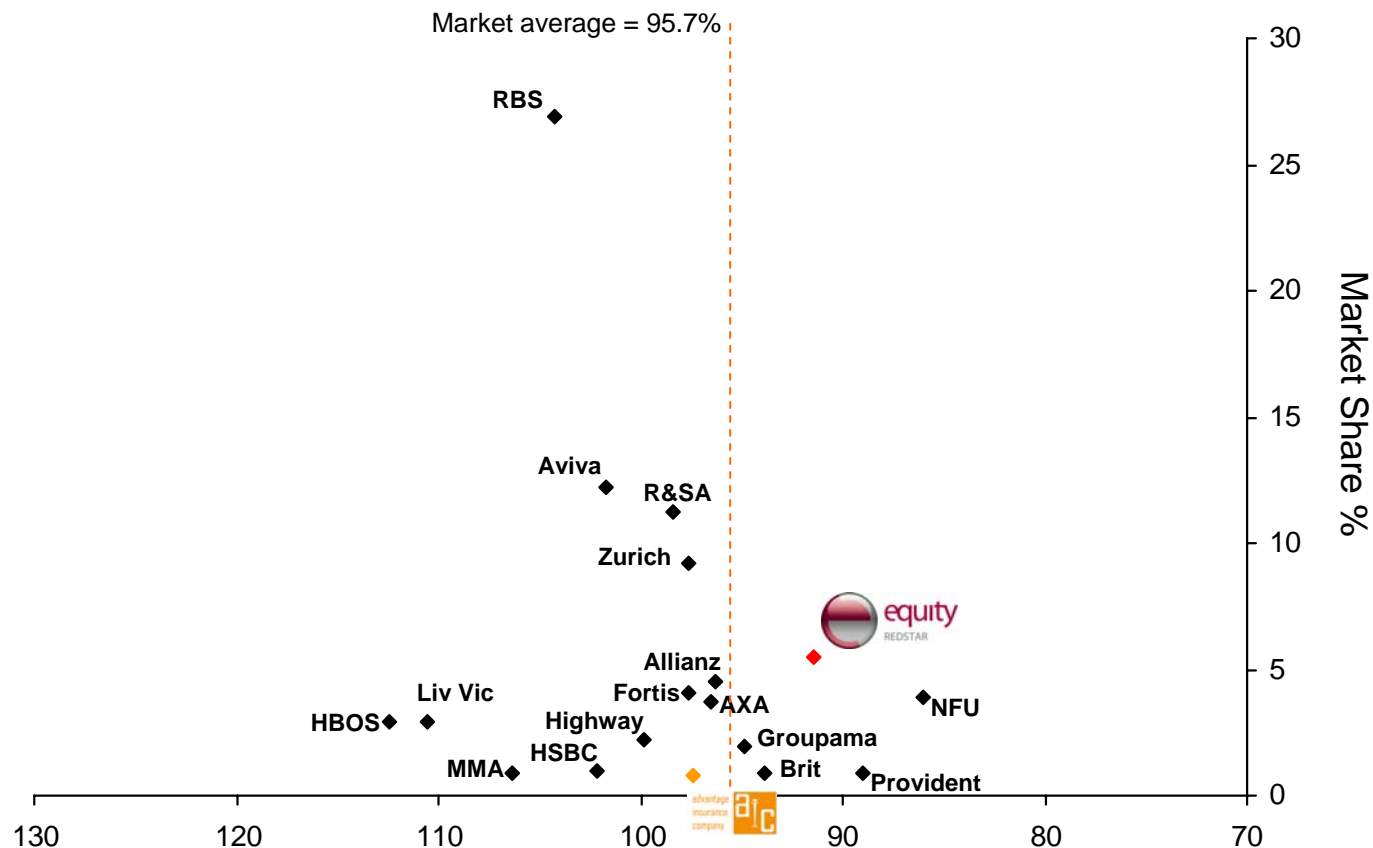


■ Phone ■ Internet ■ Face to Face ■ Post

- **Consolidation continues**
- **Internet share of the private car market is 22% from 4% in 2003**
- **IAG estimate that the aggregator share of this online business could be up to 50%**
- **Aggregator model difficult for underwriters**
- **Significant growth in major branch networks and affinity programmes**
- **Reversion from price to value anticipated in time**

OPERATING RATIOS FOR IAG vs. THE MARKET

2004 - 2006 combined shows Equity with a market leading Combined Ratio



2004-2006 Combined Ratio % (FSA / GAAP basis)

Sources: FSA Returns, IAG analysis. Numbers presented on UK GAAP basis

CLAIMS ENVIRONMENT

- **The claims environment has been relatively benign in the UK market except for two key factors**
 - Higher claims inflation for bodily injury due to the increasing litigious society and the advent of ‘claims farmers’
 - Increasing speed of claims payment driven by legislative changes such as predictive costs for lower value bodily injury claims and demands of customers
- **Equity has seen lower levels of claims inflation than the market**

| | Total | Bodily injury |
|-----------|---------|---------------|
| Market | 4% - 5% | 9.5% |
| Equity | 4% | 7% |
| Advantage | 4.5% | 9% |

- **The advent of periodical payments was seen as a complicating factor that could increase uncertainty in reserves, but we have not experienced this**

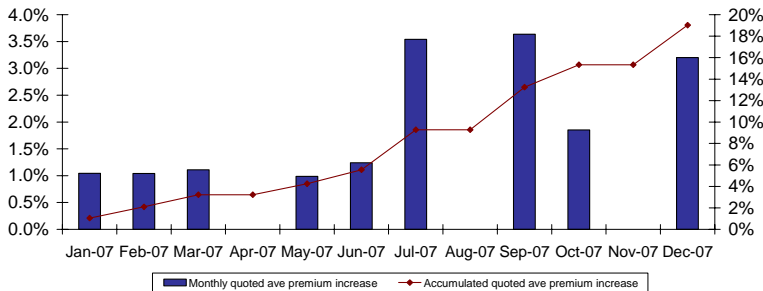
Sources: ABI ‘Fourth Bodily Injury Awards Study’, Deloitte, IAG analysis

RATING ENVIRONMENT

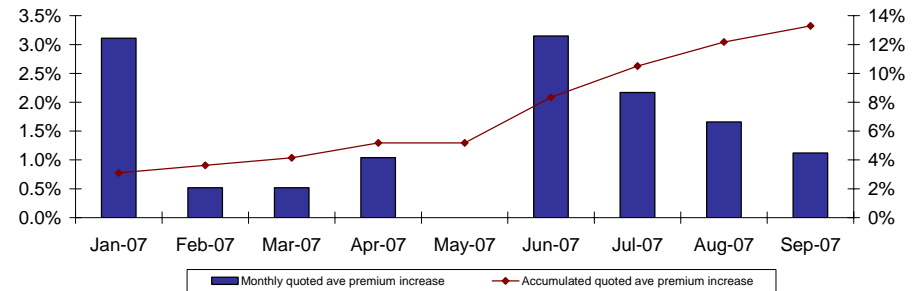
Private Car – Increases starting to outpace inflation

- The AA Index cites a 1.4% increase in rates in Q3 2007, with an annual increase of 8% on last year
- IAG analysis indicates a calendar year to date market increase of 11%
- Lack of household insurance profit eliminates cross-subsidies capacity
- IAG and Deloitte hold a view that prior year reserve releases will shrink in 2007/08 compared to 2005/06
- Other classes are profitable but the market is soft
- Rate increases cause a mix change effect and will not all be evident in the bottom line

Advantage private car rate movement - External



Equity Red Star private car rate movement - Screen rated



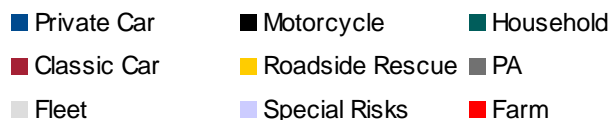
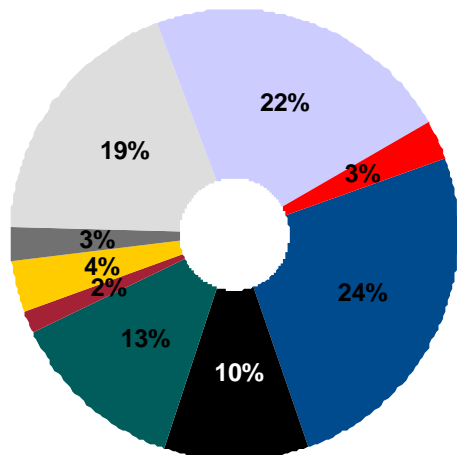
- The anticipated effect of rate changes on the loss ratio is an improvement of up to 10% once fully earned
- The effect of the increases on rates has been a 10% increase in average premium

- The effect of the 13% increase on rates has been a 10% increase in average premium on screen rated business
- The increases applied on large panel brokers have been in excess of the screen rated product
- Own business strategically priced with lower increases. This segment of the book runs a better loss ratio

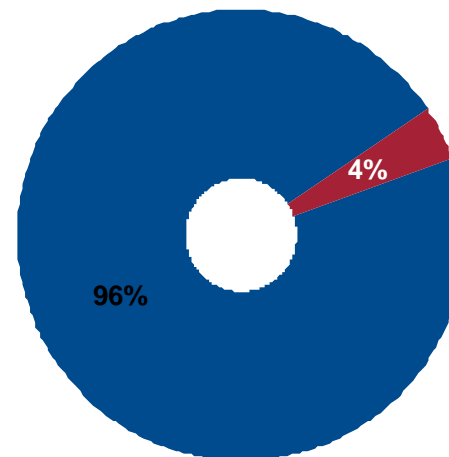
IAG UK UNDERWRITING

Focus on specialist segments and owned distribution channels

ERS £500m GWP (CY06)



Advantage £113m GWP (CY06)

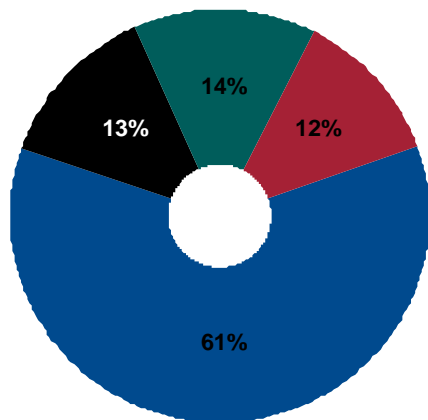


- ERS has a diversified book with a number of specialist niches. 20% sourced from internal distribution
- ERS maintains position as number one motorcycle insurer
- ERS premium of £187m (IAG share) and COR 98.6%* six months to June 2007
- Advantage writes predominantly private car with the majority sourced from Hastings
- Advantage premium of £75m and COR of 118% for six months to June 2007

* UK GAAP basis

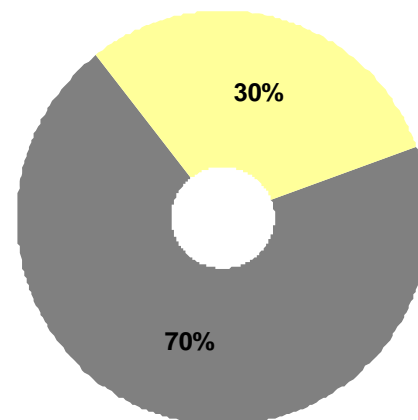
IAG UK - BROKING

Equity Insurance Brokers £200m GWP (CY06)



■ Branch Network ■ Direct ■ Affinity ■ Book Transfers / Insourcing

Hastings £200m GWP (CY06)



■ Call Centre ■ Internet

- 4th largest personal lines broker in the UK
- UK's 3rd largest branch network and the largest broker in Northern Ireland
- Combined GWP of £194m six months to June 2007
- >45% of EIB business written into ERS and >70% of Hastings written into Advantage
- Superior underwriting performance from owned distribution
- Hastings is a well recognised brand with high recall
- 60% of quotes from internet with less than half from aggregators

Sources: Insurance Times Top 50 Brokers, IAG analysis

HASTINGS & ADVANTAGE - PERFORMANCE BELOW EXPECTATIONS

- **Businesses purchased in October 2006**
- **Number of issues have come to light since April**
 - Market factors
 - Underwriting

HASTINGS AND ADVANTAGE - PERFORMANCE BELOW EXPECTATIONS

Market factors

- **Soft market took longer to turn than expected**
- **Reduced effectiveness of marketing spend**
- **Increasing presence of the internet and rise of aggregators**
 - Low conversion rates
 - Lower cross-sell of ancillary products
- **Overall margin pressure**

HASTINGS AND ADVANTAGE - PERFORMANCE BELOW EXPECTATIONS

Underwriting

- **Writing large volumes of low risk business but severely underpriced during 2006**
 - Enabled Hastings to grow rapidly
 - Negative impact on Advantage COR (deteriorated from high 90%s in 2005 to 118% in 2006) *
- **Loss of third party capacity from Inter Hannover**
 - Reduction in competitiveness for Hastings
 - To maintain business volumes significant proportion written by Advantage, underpriced
- **Advantage grew its business with external brokers with highly competitive rates during 2006**
- **Rating engine issues**
- **Temporary removal of third party panel**
- **Slow to develop outbound capability in response to the increase in internet business**

* UK GAAP

HASTINGS - ACTIVELY RESPONDING TO RAPIDLY CHANGING MARKET

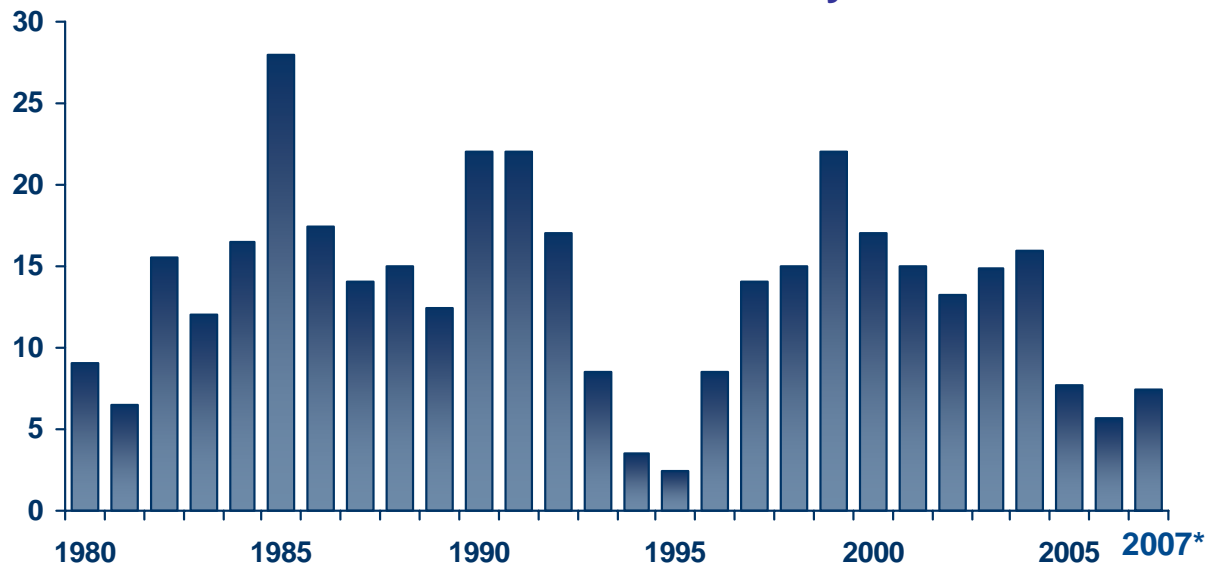
- **Business strengths:**
 - 500,000 owned customers
 - Brand with high recall
 - Improved website
- **Utilising strengths in active response to rapidly evolving market**
- **Moving brand away from low cost to value**
- **Capitalisation on internet opportunity**
 - Aggregators bring low cost acquisition
 - Outbound model being developed to maximise earnings
 - Refocus marketing to Hastingsdirect.com
- **Integration with Equity Direct**
- **Optimising operational efficiency and customer service**
 - Unleashing the Potential annualised pre-tax savings targeted of £9m
 - Merging common support functions with Equity

ADVANTAGE - PRICING FOR PROFIT

- **Senior management changes**
- **Focus on own distribution, particularly branches**
- **Actuarial review quick wins of £3m – £5m per annum identified**
 - Leveraging off IAG actuarial capability to better segment and calibrate technical prices
 - Eliminating poor segments of business by detailed cluster analysis and then out-sorting the poorer performing areas by price or acceptability
- **Reduction in sales through big name broker panels**
- **Improvements being made to rating engine**
- **Renegotiation of supply chain contracts**
- **Leverage off ERS expertise**
- **Rate rises average 13% this calendar year to date (15% for external business)**
 - Beneficial change in mix
 - Expected retained premium inflation of 7 - 8%, running above claims inflation at 4 - 5%

IAG UK - EQUITY RED STAR OUTPERFORMANCE

% outperformance by Equity against motor market (COR)
Median = 15% over 26 years



Outperformance due to

- Expertise of people and their length of service
- Each class underwriter has specialist knowledge and strong broker relationships
- Niche strategy
- Ruthless attention to detail
- Bespoke claims service with expertise for each class of business
- Market leading deals with approved repairers

* 2007 assumes a market COR of 106% for six months to June 2007 – UK GAAP basis

IAG UK UNDERWRITING STRATEGY

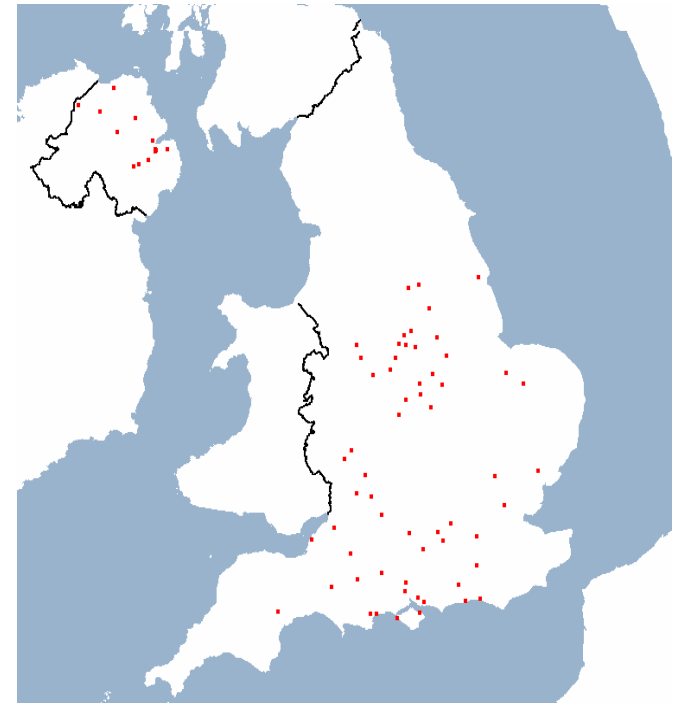
Equity Red Star – Strengthening our segments

- **Largest motor syndicate at Lloyd's**
- **Focus on distribution through third party brokers**
- **Private car rate rises average 12% calendar year to date**
- **Grow bespoke and specialist motor business organically**
 - Development of underwriting satellite offices (launch Jan '08)
 - Leverage key broker relationships
- **Focus private car on key broker relationships only, until market returns to profitability**
- **Develop small commercial underwriting presence, leveraging IAG experience**
 - Further SME classes
 - Deepen our relationships with key brokers and major clients

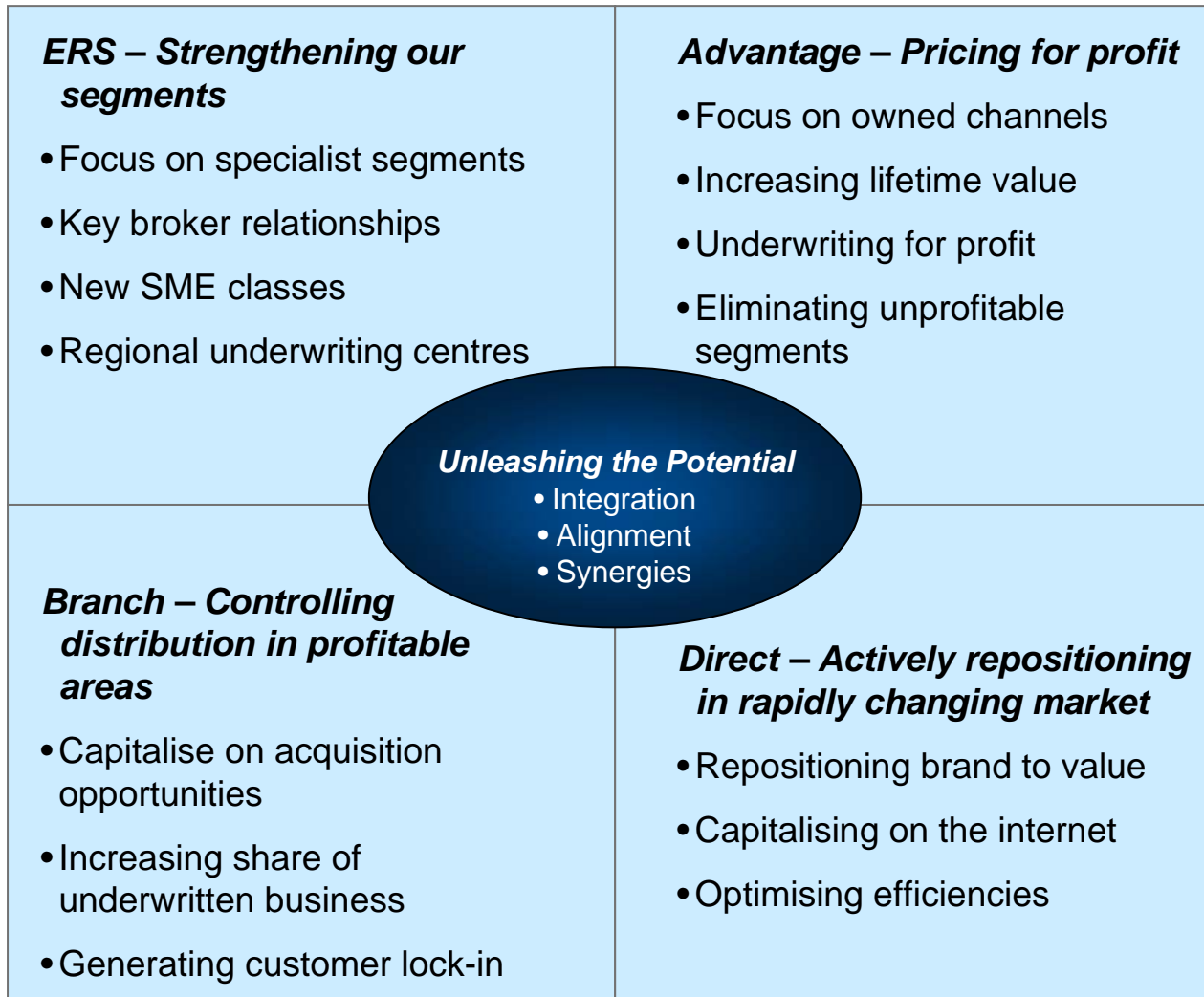
IAG UK BROKING STRATEGY

Branch Network – Controlling distribution in profitable areas

- **81 branches (13 acquisitions this calendar year to date)**
- **Growing branch network through acquisitions to:**
 - Control distribution in profitable underwriting areas
 - Higher retention and cross sell
 - Lower cost and lower risk policy acquisition
 - Increase underwriting share of acquired business
 - Increase margin
- **Strategy to acquire at least 15-20 branches per annum**
- **Increase organic growth rate**
- **Target to own 200 branches by 2012**

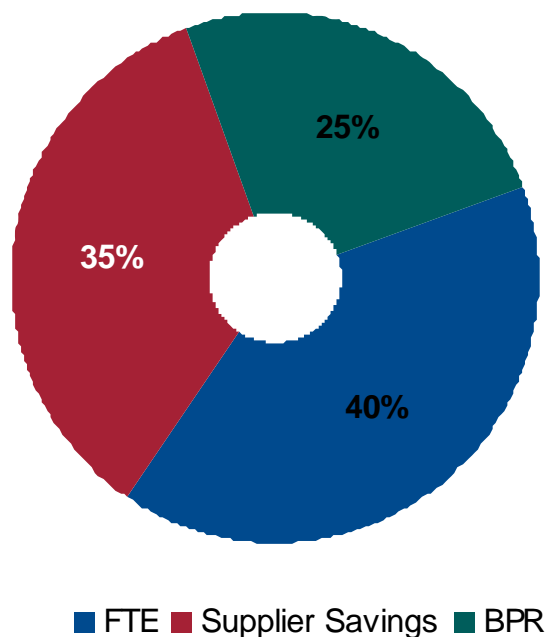


IAG UK STRATEGY SUMMARY



UNLEASHING THE POTENTIAL

Split of benefit delivery



- **Programme to**
 - Integrate Equity and Hastings
 - Align with IAG
 - Increase operational excellence
 - Increase revenues
- **Project team of 17 project managers and a project office of 4**
- **34 individual projects**
- **In delivery mode with annualised savings realised of more than £8m to date**
- **Target of £25m on track**
- **Fully embraced by wider organisation**
- **Exploiting IAG talent pool**

IAG UK OUTLOOK

- **FY08 GWP for Equity at £500m (£320m our share) flat on prior year**
- **Mix improved as drop in private car volume is made up by gains in bespoke business**
- **Advantage flat in 1H08 with growth of 30% in 2H08 due to household licence and business received from Equity broking**
- **Hastings income 20% lower year on year with cost reductions showing through in 2H08**
- **Equity broking gross income for FY08, up 17%**
 - Excluding acquisitions up 7%
 - Profits from Equity Broking being consumed by Hastings issues
- **UK storm underwriting losses for Equity £3.5m and modest reserve movements reduce margin in first half**
 - Market conditions added to this have reduced profit expectations for CY07
- **Full year Equity insurance margin target 10%+**
- **Advantage COR running at 115% but with positive margin moving into FY09**

EXECUTIVE SUMMARY

- **Quality assets well positioned in a large market**
- **Market soft but improving**
- **Integration of UK businesses to drive efficiencies**
- **Positioning business for market upturn**

IAG New Zealand

Nick Hawkins

29 October 2007

EXECUTIVE SUMMARY

- **Mature, rational market impacted by a large event in July 2007**
- **Our intermediated business is growing market share in this stable environment**
- **Focused on leveraging the advantages of our scale**
 - Leading rate changes in commercial lines
 - Reductions in our cost base improving COR by 1-2% in next 12-18 months

STABLE, MATURE AND RATIONAL MARKET

- **Broker Market (c. NZ\$1.4bn*; 46%):**
 - Remains dominant channel for commercial/corporate business
 - Hardening of rates expected across SME and mid-sized risks next 6-18 months
 - Ongoing consolidation activity signalling a potential shift in dynamic towards fewer, higher-value relationships
- **Direct Channel (c. NZ\$1.6bn*; 54%):**
 - Remains dominant channel for personal lines
 - Strong competition, moderate rate increases expected (CPI+) across majority of product lines
 - Market strengthening of Home Owners prices to improve profitability
 - Lags overseas insurance markets in terms of internet usage (unlike banking)
- **Fundamental market growth expected to be moderate over next 12-24 months - broadly in line with CPI**

*ICNZ statistics

IAG NZ HOLDS A LEADING MARKET SHARE AT 36%

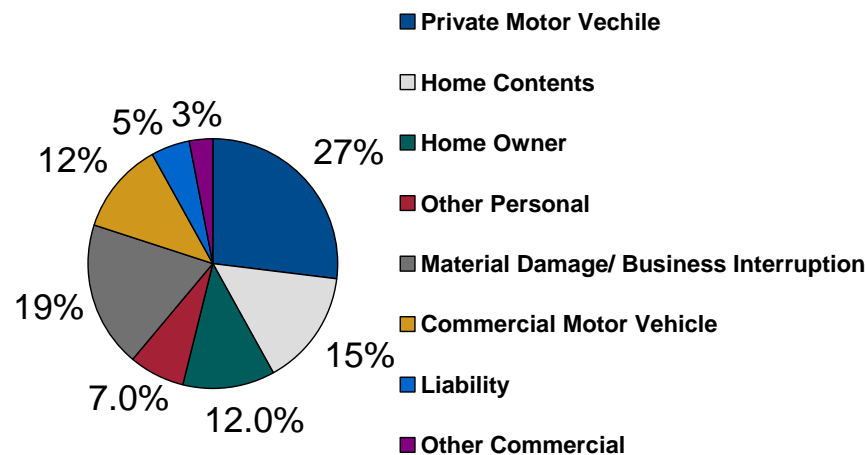
Products

- Predominantly short-tail insurance
- Business mix consistent with market

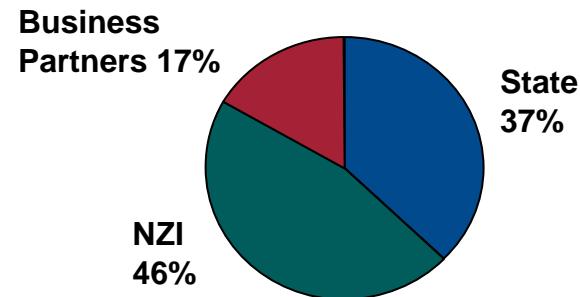
Distribution Channels

- **State** provides personal & commercial insurance to NZ personal customers and SMEs
- **NZI** is our broker business predominantly focused on SME & Mid markets with increasing focus on corporate market
- **Business Partnerships** distributes personal and commercial insurance through financial institutions and dealerships; intermediated and direct travel business

IAG NZ Product Mix



IAG NZ Channels



NEW ZEALAND'S INSURER OF CHOICE

IAG NZ

"Customer Centric"
products, prices, services
and distribution

"Leadership Position" in
technology and processes
through scale and efficiency

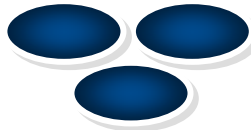
"High Performing Staff"
engagement and turnover are
best employer levels

+

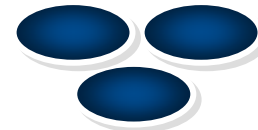
STATE
INITIATIVES



NZI
INITIATIVES



BP
INITIATIVES



SIGNIFICANT PROGRESS ON EXECUTION

Customer Centric

- Offering a complete suite of commercial products with the launch of Professional Liability, Marine and SME Direct products
- Re-aligned operational model around our customers
- Embedding customer advocacy into the culture of the business
- Increasing our share of large Corporate market
- Stronger and more strategic relationships with brokers

Leadership Position

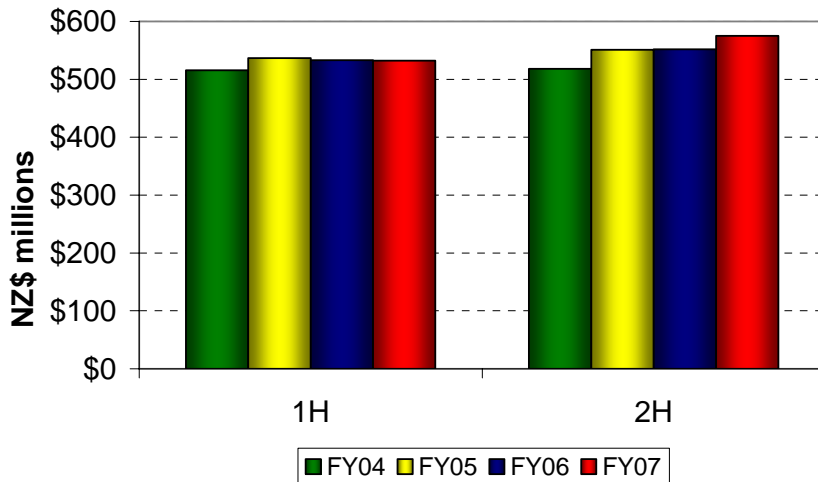
- Invested in new personal lines system (Huon), leveraging Group assets, improving underwriting capability and achieving long term competitive advantages
- Implementing improvements from operational efficiency program with expected benefits of 1-2% in COR
- Driving hardening of commercial rates

High Performing Staff

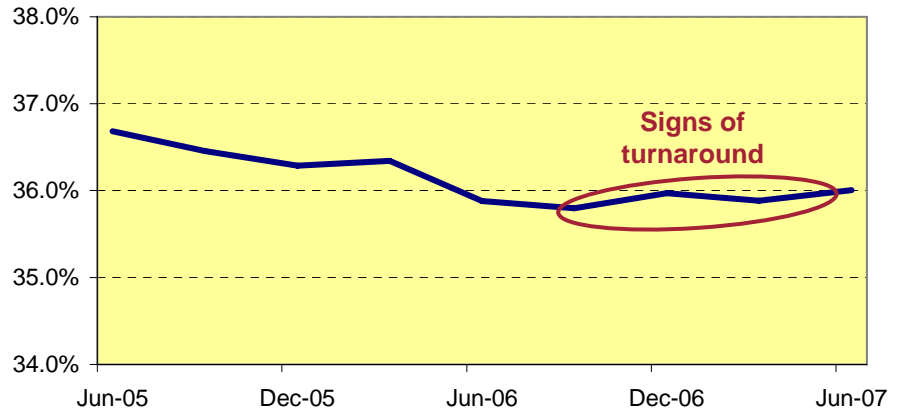
- Improved staff turnover and engagement
- Development of flexible remuneration structure to better reward right behaviours focused on profitable growth
- Enhancements to our talent management framework including the introduction of a new talent management system

GROWTH IN GWP AND INCREASED MARKET SHARE

IAG NZ GWP



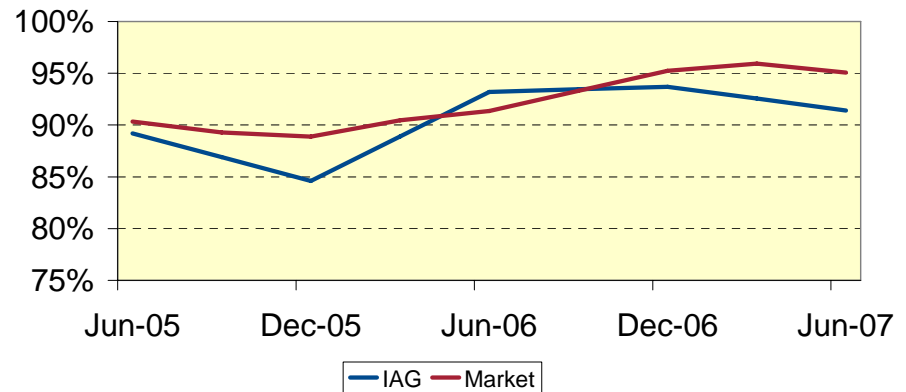
IAG Market Share (ICNZ)



Last 12 months have seen signs of a turnaround in GWP and market share:

- Rolling annual growth of 3.8% (against CPI of 2%)
- Reversed decline in market share from 35.8% to 36.0% (YOY)

IAG NZ vs. Market COR



Significant weather events in July 2007 (NZ\$35m) affected underwriting result

Source: Insurance Council of New Zealand – June 2007

OUTLOOK

- **NZ\$ GWP growth for FY08 expected to be 3-5%**
 - Exceeding market and CPI

- **Insurance result outlook hit by July storms**
 - Expect 4 – 6% margin for FY08

EXECUTIVE SUMMARY

- **Mature, rational market impacted by a large event in July 2007**
- **Our intermediated business is growing market share in this stable environment**
- **Focused on leveraging the advantages of our scale**
 - Leading rate changes in commercial lines
 - Reductions in our cost base improving COR by 1-2% in next 12-18 months

IAG Asia

Investor Briefing

Justin Breheny

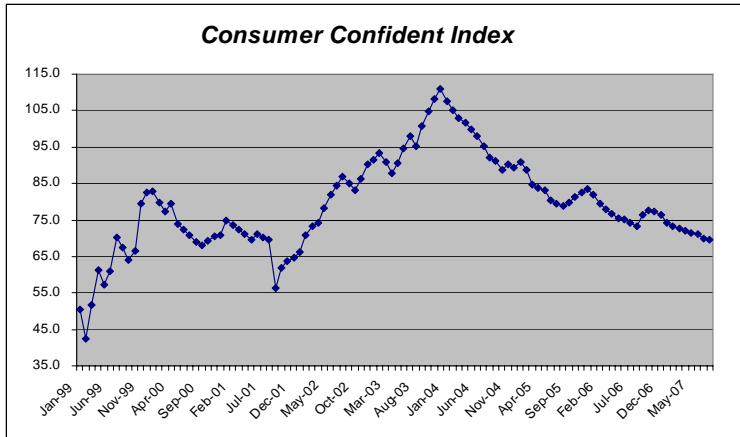
29 October 2007

EXECUTIVE SUMMARY

- **State of the markets**
 - Challenging but growing markets
 - Competition is increasing
- **Organic growth**
 - IAG Thailand year-on-year GWP growth around 5-6% despite a drop in consumer confidence
 - Malaysia (AmAssurance) year-on-year GWP growth around 20% despite soft new car sales
- **Acquisition focus**
 - Planned growth through prudent and disciplined M&A
 - Focused on four key markets: Thailand, Malaysia, China and India

CHALLENGING MARKET CONDITIONS

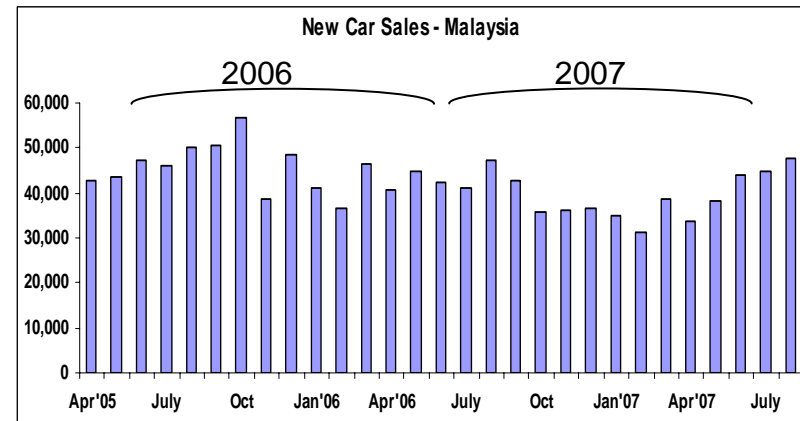
Thailand



State of the market

- Difficult market as political instability adversely impacts consumer confidence and large infrastructure spending
- CY06 new car sales were down 3% on 2005 and Jan-Apr 2007 sales down by almost 16% on the previous year

Malaysia



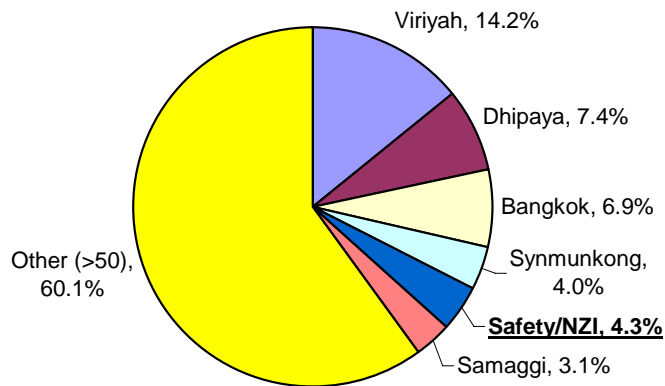
State of the market

- Consumer confidence has slipped, resulting in new car sales for FY07 falling 15% to 460,000 units
- There has been a small improvement since July 2007
- Despite this situation, AmAssurance has grown premium by around 20% in the first 3 months of FY08 compared to the same period last year

MARKET POSITION - STRONG BASE FROM WHICH TO EXPAND

Thailand

Thailand Market Shares As at 30 June 2007

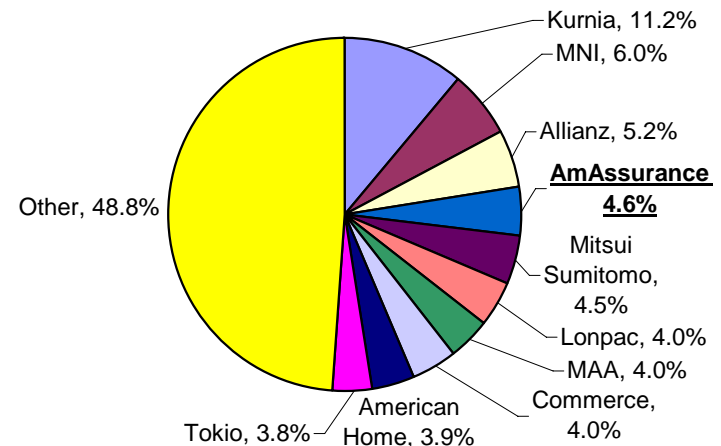


Market position

- The combined Safety and NZI businesses rank as the 4th largest insurer in Thailand with 4.3% market share
- Consolidation in the market is likely in the medium term as there are too many players (in excess of 60 insurers) with only small market shares

Malaysia

Malaysian Market Share - As at 30 Sept 2006



Market position

- AmAssurance is the 4th largest non-life insurer in Malaysia with 4.6% market share
- The industry regulator, Bank Negara, is moving to strengthen capital requirements by adopting a Risk Based Capital framework - we expect this to result in industry consolidation

STRATEGY TO GROW THROUGH DISCIPLINED ACQUISITIONS IN FOUR KEY MARKETS



We have assessed 14 markets on the following criteria:

| Macro indicators | Insurance industry | Key players |
|--|---|--|
| <ul style="list-style-type: none"> • Economy/size/growth • Country risk • Market openness • Regulatory environment | <ul style="list-style-type: none"> • GWP size, growth • Profitability • Penetration/density • Product lines • Distribution | <ul style="list-style-type: none"> • Competition • Market share • Market consolidation • Foreign players |



| Opportunities for IAG |
|---|
| <ul style="list-style-type: none"> • Focus on two relatively mature markets with high growth and immediate earnings: <ul style="list-style-type: none"> – Thailand and Malaysia • Focus on two larger and less mature markets with higher growth rates <ul style="list-style-type: none"> – China and India |

PROGRESS ON EXECUTION

Continued strong progress on capability transfer

Thailand

Distribution/Operations

- Telemarketing centre established
- Distribution of new car Extended Warranty product via Hyundai dealers
- Distribution of used car Extended Warranty product via Chevrolet dealers
- Distribution of Gap Insurance product via GMAC
- Expansion of branch network to capture growth in North and North East Thailand

Product

- Gap Insurance product launched
- New 'Low cost' travel product developed
- Extended Warranty product for new cars
- Extended Warranty product for used cars
- Personal Accident Insurances

Technical

- Portfolio and risk analysis reviews
- Introduction of improved reporting tools
- Improved understanding of underwriting performance and risk selection
- Claims performance reporting improvements

Malaysia

Distribution/Operations

- Banking systems review with AmBank has identified opportunities for improved systems integration and broader bancassurance product suite
- Joint project targeting improved service, efficiency and management via consolidation of existing branch network

Product

- New Gap Insurance product developed for AmBank Auto loan division
- Extended Warranty product developed for new cars
- Extended Warranty product developed for used cars
- New products accounted for approximately 2-3% of AmAssurance's GWP growth

Technical

- IAG actuarial expertise has improved insight into AmAssurance underwriting and portfolio performance
- Bodily Injury (CTP) review of claims operation in conjunction with IAG Australia
 - Remedial action plan implemented

PROGRESS ON EXECUTION

Active and disciplined approach to M&A

OVERALL

- **Our strategic focus remains**
 - Entry into China and India
 - Acquire and integrate other insurers in Thailand and Malaysia as the market consolidates
- **Disciplined in our approach - many opportunities rejected as did not align with our strategy or acquisition criteria or the prices being paid were not, in our view, rational**

MARKET SPECIFIC

- **China:** We continue to talk to a number of insurers in China who are seeking foreign strategic investors
- **India:** We are in advanced discussions with a number of Indian companies with a view to establishing a non-life insurance JV
- **Malaysia:** We have developed a strong relationship with our partner, AmGroup, and have been invited to increase our ownership to 49% - we will sell-down our life insurance ownership at the same time. We continue to look for acquisition opportunities
- **Thailand:** Opportunities have been few due to political uncertainty - we continue to build relationships with potential partners / targets

FINANCIAL OUTLOOK

Thailand (Safety and NZI)

| Key metrics (Thai Baht/AGAAP) | FY08F |
|----------------------------------|------------|
| GWP (billions) | 5.1 – 5.2 |
| Insurance margin | 2.0 – 4.0% |

Financial outlook

- **Stable and consistent performance**
- **Continued revenue growth**
- **In local currency we are expecting GWP growth of around 9%-11%**
- **Based on Australian GAAP, we expect the full year insurance margin to be down on the prior period due to:**
 - Difficult market conditions; and
 - Lower investment income due to a reclassification of equities between technical reserves and shareholder funds
- **Total earnings are likely to benefit from strong equity markets**

Malaysia (IAG 30% share)

| Key Metrics (A\$) | FY08F |
|-------------------|--------------|
| Share of profit | \$3.5 – 4.5m |

Financial outlook

- **Stable and consistent performance**
- **Continued revenue growth**
- **FY08 profit expected to be down owing to the absence of the one-off life insurance adjustment in FY07**
- **The non-life insurance business is performing strongly with GWP up 20% so far in FY08**
- **Combined ratio is improving due to lower claim costs and management focus on reducing expenses**

EXECUTIVE SUMMARY

- **STATE OF THE MARKET**

- Fast growing markets
- Difficult market conditions in Thailand due to political unrest
- Competition is increasing and more insurers looking to enter the markets, thus acquisitions are difficult and prices paid by others are not always rational

- **STRATEGY**

- Our presence in the region continues to develop around four key markets: seeking to consolidate in Thailand and Malaysia and build a presence in China and India
- We are confident that our practical partnership model will ensure that we partner with the right companies and along with our capability transfer program we can build value for our shareholders

- **PROGRESS ON EXECUTION**

- The financial and operational results in both Thailand and Malaysia are showing signs of further improvement on the back of our capability transfer program and we continue to look for opportunities to consolidate our position in these markets
- We are in discussions with a number of players in both China and India with a view to finalising our entry in the medium term

- **FINANCIAL OUTLOOK**

- We are confident that earnings will improve in FY08 over FY07 driven by good growth in the top line and an improvement in both the loss and expense ratios

Summary

Mike Hawker

29 October 2007

FY08 INSURANCE OPERATIONS OUTLOOK

| BUSINESS | GWP (\$m) FY07A | GWP growth FY08 outlook | Insurance margin FY07A | Insurance margin FY08 outlook |
|---|-----------------------|-------------------------------|------------------------------|-------------------------------------|
| Direct Personal Lines (GWP: S/T 4-6% & L/T 3-4%) | 2,889 | 2 - 4% | 16.2% | 17 - 20% |
| Affinity Personal Lines | 694 | 4 - 6% | 2.1% | 6 - 8% |
| Australian Commercial Lines | 1,580 | (4) - (2%) | 18.1% | 14 - 17% |
| Broker / Agent Personal Lines | 326 | (3) - (1%) | (15.4%) | (5) - (3%) |
| New Zealand | 968 | 5 - 7% | 10.0% | 4 - 6% |
| Asia | 168 | 9 - 11% | 6.9% | 2 - 4% |
| United Kingdom | 725 | 54 - 57% | 5.1% | 5 - 7% |
| Offshore Reinsurance | 31 | not material | not material | not material |
| IAG GROUP | 7,381 | 7% - 9% | 11.4% | 11% - 13% |

**Subject to no catastrophes or large losses outside our allowance
nor any material movements in currency or credit spreads**

FY08 TRADING OUTLOOK – SUMMARY

- **GWP growth of 7 – 9%**
- **Insurance margin of 11 – 13% on NEP of c\$7.5bn**
 - Subject to no catastrophes or large losses outside our allowance nor any material movements in currency or credit spreads
- **Financial position**
 - Consistent and conservative approach to reserving
 - Supported by strong capital position and very strong ‘AA’ ratings for key wholly-owned insurers
- **Dividend guidance of 29.5 cents per share maintained**
 - Acknowledge payout ratio likely to exceed 50-70% of normalised earnings
 - Do not expect to underwrite FY08 dividends

QUESTIONS