INVESTOR BRIEFING: GROUP STRATEGY AND TRADING UPDATE

Michael Wilkins
Managing Director & Chief Executive Officer
9 July 2008

Insurance Australia Group Limited ABN 60 090 739 923

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All amounts are presented in Australian dollars unless otherwise stated.

FY08 refers to preliminary, consolidated and unaudited results for the financial year ended 30 June 2008, and FY09 refers to the financial year ending 30 June 2009.

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AGENDA

1. GROUP STRATEGY: REFINING OUR FOCUS
2. A NEW OPERATING MODEL
3. OUTCOMES OF OPERATIONAL REVIEW
4. COST INITIATIVES AND FINANCIAL IMPACT
5. TRADING UPDATE: FY08 AND FY09
6. TIMELINE AND SUMMARY

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GROUP STRATEGY: REFINING OUR FOCUS

OUR BUSINESS REMAINS GENERAL INSURANCE

OUR BUSINESS	• General insurance products and services
OUR CORPORATE INTENT	• A portfolio of high performing, customer-focused, diverse operations providing general insurance in a manner that delivers superior experiences for our stakeholders and creates shareholder value

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WE WILL ACTIVELY MANAGE OUR PORTFOLIO

OUR TARGETS

- Top quartile Total Shareholder Return (TSR)
- ROE > 1.5x WACC

OUR STRATEGY

- Deliver superior performance by actively managing our portfolio, exiting businesses that do not fit our intent or return hurdles, and driving operational performance and execution in those that do

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AND FOCUS ON HOME MARKETS

OUR STRATEGIC PRIORITIES

- Improve our performance in Australia and New Zealand
- Pursue selective international growth options – Asia and other narrow specialist opportunities
- A devolved model with the Corporate Office as portfolio manager
- Driving operational performance and execution

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A NEW OPERATING MODEL

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A NEW WAY OF WORKING

- **Revised corporate strategy with a focus on execution and active management of our portfolio of general insurance businesses**

- **This will drive change throughout our organisation, including our operating model**
  - Devolved model with end-to-end businesses
  - Shared services integrated into the businesses
  - Lean Corporate Office focused on the highest value-add activities

- **Accountability driven throughout the organisation**
  - Relentless focus on execution and delivering performance
  - More active allocation of capital based on returns

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OUR BUSINESS MODEL

Australia – Direct Insurance	Australia – Intermediated Insurance (CGU)	New Zealand	Asia	United Kingdom	eVentures

ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE

NEW MANAGEMENT STRUCTURE

- MICHAEL WILKINS
  MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
  - NICHOLAS HAWKINS
    CHIEF FINANCIAL OFFICER
  - LEONA MURPHY
    GROUP EXECUTIVE, CORPORATE OFFICE
  - JUSTIN BREHENY
    CHIEF EXECUTIVE OFFICER, ASIA
  - DUNCAN WEST
    CHIEF EXECUTIVE OFFICER, CGU
  - [TO BE APPOINTED]
    CHIEF EXECUTIVE OFFICER, DIRECT INSURANCE
  - JACKI JOHNSON
    CHIEF EXECUTIVE OFFICER, eVENTURES
  - IAN FOY
    CHIEF EXECUTIVE OFFICER, NEW ZEALAND
  - NEIL UTLEY
    CHIEF EXECUTIVE OFFICER, UNITED KINGDOM

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OUTCOMES OF OPERATIONAL REVIEW

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AUSTRALIA - DIRECT INSURANCE
ACCELERATING OUR PERFORMANCE

- **Unique franchise with leading brands and market positions; delivering acceptable returns on capital but potential to do much better**
  - Focus is to optimise returns

- **Build greater customer understanding**
  - Continue to target customer segments and increase cross product penetration
  - Differentiate customer value proposition
  - Continuous improvement framework to deliver superior customer experiences

- **Aggressively deliver lower, more productive expense base**

- **Improve insurance margins**
  - Further refinement of pricing/underwriting skills and claims management models

*Via a distribution relationship and underwriting joint venture with RACV Ltd

AUSTRALIA - INTERMEDIATED INSURANCE
FOCUSING ON THE FUNDAMENTALS

- **Sound business with strong regional/rural market position, which requires a focus on business fundamentals and providing sustainable long-term returns**
  - Commercial insurance currently at the bottom of cycle
  - This business, and the industry generally, has been supported by reserve releases. Cross-subsidies between liability and property classes need to be removed
  - Renewed focus on expense improvement and profitability
- **Competitive advantage**
  - Delivering a differentiated approach that is valued by our customers
- **Core competencies**
  - Improving capability and competitive advantage around underwriting, claims and account management
  - Remedial underwriting strategy with focus on driving price increases needed to ensure profitable business, even if this means forgoing top line growth in the short term
- **Business efficiency and effectiveness**
  - Investing in improved systems and processes to deliver better customer outcomes and lower operating costs over time
- **Results driven**
  - Focus on operational execution of strategic initiatives
  - Devolved accountability and authority – new organisational structure in place

NEW ZEALAND
IMPROVING OUR PERFORMANCE

- **Leading market shares but profitability affected by natural perils claims and large losses; further advanced in implementing cost savings and set to benefit from new technology platform**

- **Improve the direct insurance business**
  - Leverage new technology platform to enable more granular segmentation and pricing
  - Relaunch the State brand and improve customer experience
  - Continue to focus on direct commercial insurance

- **Continued growth of NZI**
  - Leverage NZI status as an iconic brand through an expanded product suite
  - Benefit from hardening commercial rates and maintaining underwriting discipline

- **Deepen our strategic business partnerships**
  - Targeting growth in profitable relationships

- **Consolidate productivity gains**
  - As previously announced, net benefit of $4m in FY08 with annual run-rate of $16m from FY09

UNITED KINGDOM
NARROWING FOCUS TO SPECIALIST UNDERWRITER

- **Equity Red Star is a profitable, specialist business, but private motor businesses affected by challenging market dynamics**

- **Significant changes in the UK private motor market have been identified**
  - Success of internet aggregators has increased price competition amongst underwriters
  - Expect the market to continue to be tough for at least another two years

- **In response, we will scale back to become a specialist motor underwriter**
  - Maintain Equity Red Star as a stand-alone specialist underwriter and distributor
  - We will look for natural owners who can derive greater value from the personal lines distribution assets Hastings/Advantage and our mass market branch distribution
  - As a result, we will write down the value of our UK assets with an expected impairment charge of around $350m (nil tax) in FY08

ASIA

PURSUING GROWTH OPPORTUNITIES FOR THE FUTURE

*

- **Strategy unchanged, continue to pursue selective growth opportunities in target markets**
- **Pursue a pan-Asian strategy to deliver higher long-term growth and profitability**
  - Increase our share in target markets
    - Organic growth in Thailand (Safety and NZI)
    - Organic and acquisitive growth in Malaysia (AmAssurance)
  - Focus on India and China as our priority medium-term growth markets
    - State Bank of India JV expected to become operational late in FY09
    - Pursuing opportunities in China
- **Invest in strengthening core capabilities**
  - Continue to leverage our core skills and capabilities to deliver value to our Asian businesses
  - Continue to strengthen our ability to manage JV partnerships and minority interests

***Not wholly owned by IAG.**

ASSET MANAGEMENT AND REINSURANCE

- **Asset Management and Reinsurance are integral to the efficient management of the Group's capital resources**
- **Asset Management no longer a separate business unit**
  - No longer pursuing third party mandates
  - Now focussed on servicing IAG's operating businesses
  - Will become part of Corporate Office, refine activities and slim down infrastructure
- **Reinsurance captives have been effective**
  - Stems business unit leakage and enables more efficient buying of covers on a Group basis
  - Also moving to Corporate Office given focus is now on IAG's operating businesses
- **Strategy of developing Lloyd's managing agency and specialist Asian syndicate no longer required to support the Group's Asian business**
  - We will look to exit from our investment, Alba (Lloyd's syndicate 4455) and Diagonal Underwriting Agency

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COST INITIATIVES AND FINANCIAL IMPACTS

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SUSTAINABLE REDUCTION TO AUSTRALIAN COST BASE

INITIATIVES

- **Devolving shared services functions to operating businesses**
- **Rationalising roles in Australian businesses**
  - Removing duplication and focusing on value-add activities
- **Leaner Corporate Office focused on governance and portfolio management**
- **Claims management initiatives**
  - Refining processes and improving customer experience

TOTAL SAVINGS (PRE-TAX)	$130m
FY08 COST OF IMPLEMENTATION (PRE-TAX)	$60m

CARRYING VALUE OF UK ASSETS
NOW RECOGNISES OUR MORE FOCUSED APPROACH

IMPAIRMENT *:

- Impairment of UK identifiable intangible assets
- Impairment of UK goodwill on acquisition

FY08 IMPAIRMENT OF UK ASSETS	$350m

* Includes Alba and Diagonal

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TRADING UPDATE

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2H08 TRADING CONDITIONS

- **Australia**
  - Direct Insurance remains competitive but pricing is rational and rate increases are holding
  - Further rate increases expected in direct market reflecting rising claims costs and recent storm frequency experience
  - SME market remains very competitive, however, some early signs of improving conditions. Middle market and corporate also continue to be competitive
  - CGU (Intermediated Insurance) has maintained its commitment to disciplined pricing. Targeted rate increases are holding, but have resulted in a loss of some business. Winning new business is challenging

- **New Zealand**
  - Industry profitability affected by abnormally high level of claims, increased frequency in personal lines business and abnormally large losses in commercial business
  - Rate increases occurring in most classes across the entire market

2H08 TRADING CONDITIONS

- **United Kingdom**
  - Specialist motor classes continue to trade profitably and rate rises are holding
  - Private motor market remains soft and rates are taking longer to harden than expected
  - Private motor market remains highly competitive with continued growth in internet aggregators maintaining price competition and increased customer churn in private motor

- **Asia**
  - Thailand
    - Market growth affected by political and economic pressures impacting on consumer confidence
    - Rate rises, branch expansion and increases in new car sales aiding GWP growth
  - Malaysia
    - GWP growth reflecting improvement in new car sales and expansion of distribution network and product range

FY08 TRADING UPDATE

	Consolidated Preliminary FY08 result (not audited)*
GWP growth In line with the 5.5 – 6.5% revised guidance	6%
Net earned premium Up from $6.7b in FY07	$7.3b
Insurance margin (excluding restructuring) Expected to be at the bottom end of the 6 – 8% revised guidance	6 – 8%

*Subject to final audit, actuarial and Board sign-offs.

FY08 UPDATE*

- **The outcomes of the operational review completed in late 2H08 will result in:**
  - A restructuring provision of around $60m ($42m after tax) in relation to initiatives that will improve the operational efficiency of the business
  - Non-cash impairment charges of around $350m (nil tax) in relation to the carrying value of UK assets
- **Revaluation of embedded right/option in $550m RES (IANG.AX) contingent capital will result in a FY08 gain of around $69m (nil tax) based on 30 June 2008 mark-to-market valuation**
- **EPS**
  - Reported EPS expected to be in range of -15 to -13 cents per share
  - Cash EPS expected to be in the range of +6 to +8 cents per share
- **Final dividend expected to be around 9 cents per ordinary share – total FY08 dividends of 22.5 cents per ordinary share (FY07: 29.5 cents per ordinary share)**

*Subject to final audit, actuarial and Board sign-offs.

ACTIVELY MANAGING OUR CAPITAL

- **Strong capital position**
  - MCR multiple is expected to be around 1.7x as at 30 June 2008

- **APRA changes to asset based capital charges effective from 1 July 2008 will increase regulatory capital required to be held against certain investment classes**
  - Revised Group target APRA MCR multiple under new APRA measures is 1.50x (previously 1.55x);
  - Restating 30 June 2008 Group position under new measures would be around 1.6x
  - Exercise of $550m fully funded contingent capital (RES) would increase MCR multiple by 0.3x to around 1.9x

- **IAG actively manages its capital on two key parameters:**
  - An estimated risk of ruin of no more than 1 in 750 years
  - Maintaining a 90% Probability of Adequacy on outstanding claims

REVISED DIVIDEND POLICY

- **A revised policy for dividends on ordinary shares of:**
  - 50 – 70% of reported cash earnings
  - Expect to pay fully franked dividends for the foreseeable future
  - As at 30 June 2008 parent entity had around $450m of franking credits capable of fully franking around $1.0b of dividends

- **Moving away from concept of normalising investment earnings as Group is more reliant on insurance earnings and less exposed to equity markets**

FY09 OUTLOOK

	FY09 Target*
Underlying GWP growth	3-5%
Group GWP growth (Lower growth profile due to Group's change in its UK strategy and the expected impact of the introduction of six-month CTP policies in NSW)	0-2%
Group insurance margin (Now includes NSW Insurance Protection Tax and corporate overheads equal to around 1% of the reported margin)	10%+
Dividend payout ratio Based on cash earnings	50-70%

* Subject to no material movement in foreign exchange rates and no catastrophes or large losses beyond our allowances and no material changes in credit spreads

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TIMELINE AND SUMMARY

TIMELINE

	Date
Market announcement	9 July
FY08 results announcement	22 August
New management structure takes effect	29 August
Final FY08 dividend - Record date - Dividend paid	 3 September 3 October
Majority of initiatives in place	30 September

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IN SUMMARY

- **Refined corporate strategy and operating model**
  - Remediate Australia and New Zealand
  - End-to-end businesses and tight portfolio management
  - Accountability and relentless focus on execution
- **Grow Asia and select opportunities**
- **Efficiency programme to deliver $130m pa in the run rate**
  - $60m restructuring costs in FY08
- **Carrying value of UK assets now recognise our more focused approach**
  - $350m write-down in FY08
- **FY08 insurance margin at the bottom end of April guidance before restructuring provisions**
- **FY09 insurance margin of 10%+ (after NSW Insurance Protection Tax and corporate costs)**
- **Revised dividend policy**
  - Payout ratio of 50 – 70% of cash earnings

OUR MAJOR BRANDS

REGION	DIRECT INSURANCE	INTERMEDIATED INSURANCE
AUSTRALIA	NRMA INSURANCE, SGIO, SGIC, RACV *	CGU, swann insurance
NEW ZEALAND	STATE	NZI
EUROPE		equity REDSTAR, BARNETT & BARNETT
ASIA	Safety Insurance (96% voting rights), AmAssurance **	NZI

* Via a distribution relationship and underwriting joint venture with RACV Limited
** Not IAG wholly owned

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APPENDIX

REVALUATION OF RES CONTINGENT CAPITAL

CERTAIN SOURCE OF CAPITAL IN CHALLENGING TIMES

- **IAG's Reset Exchangeable Securities (ASX:IANG) provide flexibility and certainty to access regulatory Tier 1 quality capital if needed**
  - IAG has the right to exchange a $550m group liability, which is currently off balance sheet and set-off by off balance sheet high quality liquid assets, at any time prior to the Reset Date (15 March 2010) for IAG perpetual preference shares that pay a fully franked floating dividend equal to 3m BBSW plus a fixed margin of 1.2% multiplied by (1-Australian corporate tax rate). If the preference shares are not redeemed on the 10th anniversary, the margin is subject to a one time 1.0% step-up (typical "perp non call 10" structure)
  - RES price at close of business on 30 June 2008 was $81.89 per $100 of face value which reflects the widening in credit spreads since the security was issued in January 2005

- **Until RES is exchanged/retired, exchange right is in existence**

- **The exchange right is akin to a long put option on credit markets and is required to be fair valued under IFRS**

- **The change in value has occurred due to the deterioration in credit market conditions since 31 December 2007**
  - Expected fair value at 30 June 2008 is $69m (nil tax) (31 December 2007: nil)
  - Valuation methodology has been agreed with our auditors

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