2011
INVESTOR BRIEFING

14 June 2011

ABN 60 090 739 923

Insurance Australia Group

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CAPITAL

NICK HAWKINS

CHIEF FINANCIAL OFFICER

Insurance Australia Group

CAPITAL POSITION
STRONG BALANCE SHEET MAINTAINED

Long term target range 1.45–1.5 times MCR

- At 31 December 2010:
  - Capital requirement was $2.3bn
  - Group capital base of $4.2bn
  - Equated to MCR of 1.81 times

Dividend policy to pay 50–70% of cash earnings

- Provides sufficient capital to allow growth and pursue bolt-on acquisitions

Capital mix remains within targeted range

- 60–70% ordinary equity : 30–40% debt and hybrids
- At 31 December 2010, debt to total tangible capitalisation of 33%

Capital management initiatives

- Continuing to consider options
- A number of factors at play

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REINSURANCE
KEY ELEMENT OF CAPITAL MANAGEMENT

Resilient long term source of capital
- Longstanding relationships – some for over 50 years
- Diversified panel of 30+ reinsurers with strong counter-party credit profile
- Continuing availability of reinsurance capital

Upwards pricing pressure
- Sequence of recent peril events in Australia and New Zealand
- Other global events – e.g. Japan earthquake and tsunami, US tornadoes
- Quantum of reinsurance rate increases uncertain
  - Main programme renews 1 January 2012

Primary rate increases being implemented
- Price increases across all major businesses
- Modest adverse timing impact on margin in FY12

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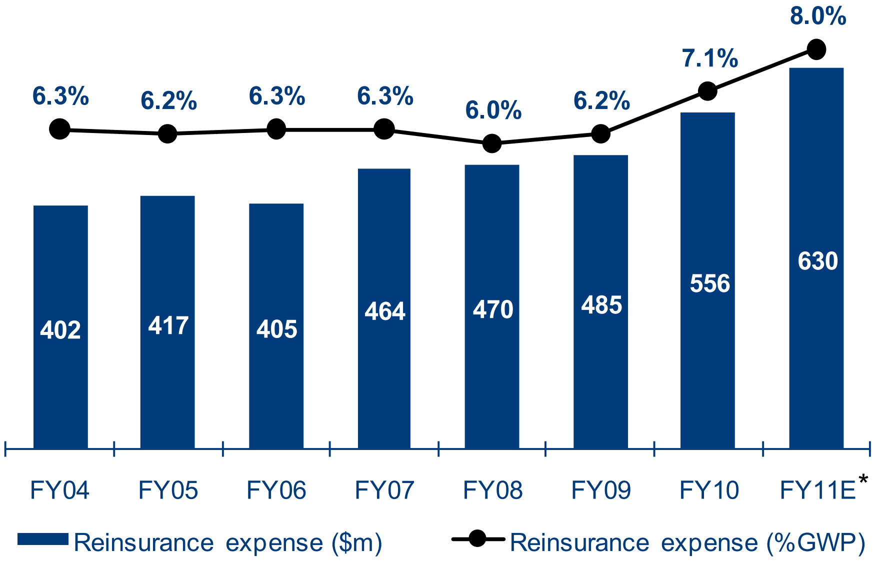
REINSURANCE
RELATIVE SIGNIFICANCE

- Consistent reinsurance expense in recent years (as % of GWP)
- Uptick in FY10 mainly due to cost of ADC in UK
- Group reinsurance expense of c.$500m (ex ADC) vs. GWP pool of nearly A$8bn in FY10
- Large proportion of reinsurance expense relates to catastrophe cover
- Expected FY11 reinsurance expense of c.$630m*, or c.8% of GWP, including:
  - 2010 UK ADC cost
  - Main programme reinstatement costs
- Further increase in FY12 reinsurance expense expected

GROUP REINSURANCE EXPENSE



* Prior to Christchurch earthquakes on 13 June 2011

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REINSURANCE
PROGRAMME STRUCTURE AND PERILS UPDATE

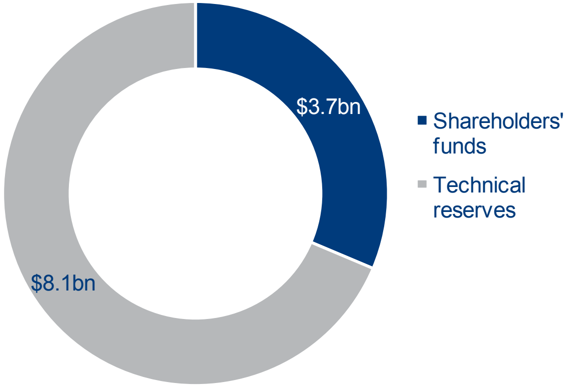
Two main aspects to catastrophe cover
- Capital preservation – main programme up to $4.1bn
- Reduced earnings volatility – lower level and subsequent event covers, including aggregate

Potential changes to 2012 programme – renewed at 1 January 2012
- Work with reinsurance partners to review options over next six months

FY11 natural perils update (prior to Christchurch earthquakes on 13 June 2011)
- Net natural peril costs slightly higher than $540m
- Approximately half of $150m aggregate cover utilised
- Next event MER $95m

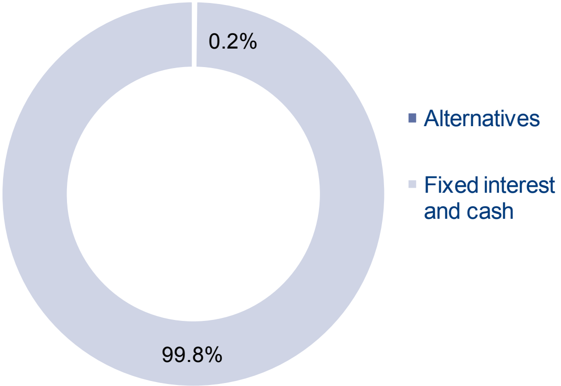
INVESTMENT PORTFOLIO
CONSERVATIVE MIX AND HIGH CREDIT QUALITY

TOTAL INVESTMENT PORTFOLIO – $11.8BN



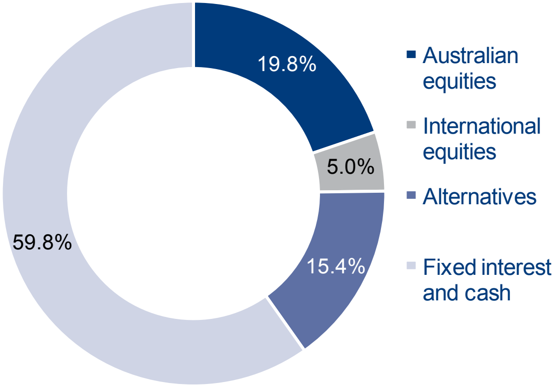
- Two distinct pools with different investment strategies:
  - Technical reserves – backing insurance liabilities
  - Shareholders’ funds

TECHNICAL RESERVES



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

SHAREHOLDERS’ FUNDS



- 40% growth assets – intention to move to around 50%
- Over 15% of growth assets currently in alternatives, including global convertible bonds

All figures as at 31 December 2010