MARKET UPDATE & CAPITAL MANAGEMENT INITIATIVES

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18 February 2009

Insurance Australia Group Limited ABN 60 090 739 923

- Thank you for attending our conference call this morning at such short notice.
- I have with me Nick Hawkins, our CFO.
- In light of the events that are affecting our industry, and particularly as we get a better sense of the likely impact from the Victorian bushfires, we would like to update you on our trading performance in the opening half of the year and to provide updated guidance for the full year.
- I should first preface this presentation by stressing that the results presented today remain subject to final audit, actuarial and Board sign-offs and that it remains our intention to deliver our finalised interim results on Thursday 26 February, as originally planned.
- You will also see that we have today announced a range of capital initiatives. These will improve our overall capital mix and strengthen our financial position, and include the raising of approximately $500m in fresh equity. I'll address these in greater detail as well.
- As usual, there will be an opportunity for questions at the end of the presentation.

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All amounts are presented in Australian dollars unless otherwise stated.

1H09 refers to preliminary, consolidated and unaudited results for the six months ended 31 December 2008 which are subject to actuarial and Board approvals, and FY09 refers to the financial year ending 30 June 2009.

AGENDA

1. 1H09 FINANCIAL PERFORMANCE UPDATE
2. UPDATED FY09 GUIDANCE
3. CAPITAL MANAGEMENT INITIATIVES

This is the agenda for this morning. There will be three parts to the presentation.

Firstly an overview of our performance in the six months to 31 December 2008, and of the significant activity the group has undertaken in this period.

Secondly, an update of our guidance for the full year, at both the GWP and insurance margin levels.

And finally, we will talk to the capital management initiatives announced today.

1H09 FINANCIAL PERFORMANCE*

Financial performance	1H08 A$m	2H08 A$m	1H09* A$m
Gross written premium	3,851	3,942	3,922
Insurance profit	190	202	227
Profit/(loss) before income tax and amortisation	237	34	45
Profit/(loss) attributable to IAG shareholders	110	(371)	4
Insurance margin	5.1%	5.6%	6.2%

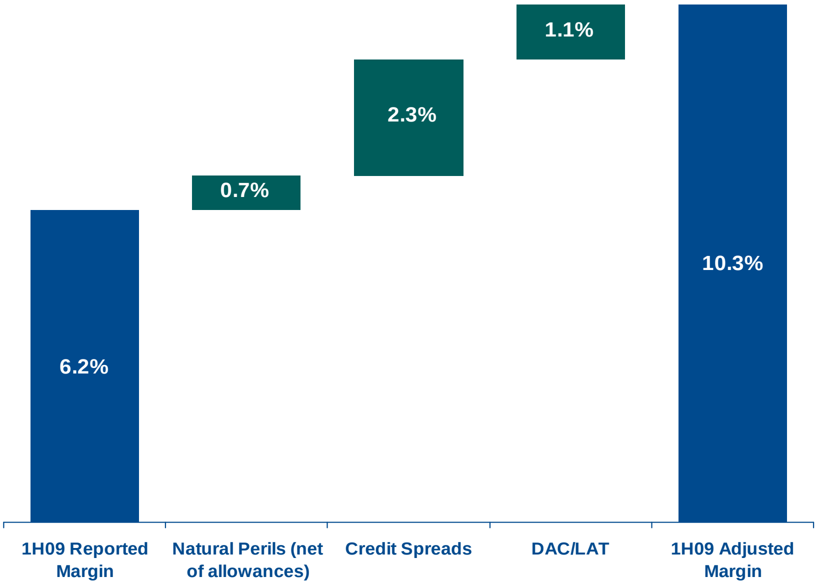
Key features of expected 1H09 results:

- GWP growth of 1.8% (underlying GWP growth of 3.9%)
- Improved insurance result of $227m, representing a reported insurance margin of 6.2%
- Reduced net profit after tax, reflecting loss on sale of non-core UK mass market distribution operations and investment loss on shareholders' funds due to poor equity market conditions

*These results are preliminary only and remain subject to final audit, actuarial and Board approvals.

- Turning to our financial performance for the half year ended 31 December 2008.
- The key half year metrics are:
  - GWP growth of around 1.8% and underlying GWP growth (after allowing for foreign exchange movements and the sale of the non-core UK operations) of 3.9%. This is in line with our previously provided guidance for the full year.
  - An insurance profit of $227m, representing an increase of over 19% on the equivalent figure in 1H08.
  - This represents an improved insurance margin of 6.2%, compared to 5.1% in 1H08, and reflects:
    - Increased average premium rates;
    - Improved underwriting discipline across the group; and
    - The initial benefit from our cost reduction initiatives in Australia, where we have now hit the targeted annual run rate of $130m before tax.
  - This improved margin outcome has been achieved despite the impact of adverse credit spread movements, natural peril costs being modestly above our first half allowances and a LAT fail which was significantly influenced by the sharp decline in interest rates in the period. I will discuss each of these in more detail shortly.
  - It also embraces a significant reduction in reserve releases, as we had previously flagged, which fell by over $140m to $85m. The current expectation is that these will be of a modest level in the second half.
  - At the net profit after tax level, the profit of $4m was materially impacted by the following significant or non-recurring factors:
    - An approximately $140m adverse turnaround in investment income on shareholders' funds reflecting the poor financial market conditions in the period, which I'm sure you are all too well aware of; and
    - A loss of over $100m on the sale of our non-core mass market distribution operations in the UK, inclusive of restructuring costs applicable to the ongoing UK businesses.

1H09 INSURANCE MARGIN*



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- Focusing more closely on our reported insurance margin for the half year ended 31 December 2008.
- As I mentioned earlier, the improvement to 6.2% has been achieved despite two significant external influences of an industry-wide nature which have trimmed 3.4% from the reported margin. These are:
  - An $86m adverse impact from the further widening of credit spreads which, as you will be aware, is always one of the caveats we highlight to any guidance given. In this instance, much of this impact occurred very late in the half.
  - And secondly, a net $42m writedown of deferred acquisition costs, or DAC as they are commonly referred to. The bulk of this charge stems from a $50m writedown within Australia Intermediated, as required under the liability adequacy test, or LAT, a significant influence on which has been the remarkable reduction in interest rates we have witnessed over the half. This has been offset by an $8m benefit from the introduction of DAC accounting in our Safety business in Thailand, bringing it in line with the rest of the group.
- The half has experienced a reduction in net natural peril claim costs of over $150m against the comparable half. As a result of storm activity which occurred late in the half, and after the SE Queensland storms in November, we have exceeded our natural peril allowances for the half by $23m.
- After removing the impact of credit spreads, DAC writedown and natural perils costs over allowances, the Group would have delivered an adjusted insurance margin of 10.3% for 1H09.
- This emphasises the improvement in underlying performance which the Group has achieved in what we always regarded as a year of rebuilding.

1H09 BUSINESS PERFORMANCE*

- **Australia Direct**
  - Strong growth in GWP (c.8.8%) compared with 1H08, driven by rate increases and volume
  - Improved insurance margin over 1H08, assisted by lower natural peril claims and cost reduction, partially offset by lower reserve releases and a widening of credit spreads
  - Brand relaunch, supplemented by new product initiatives, showing encouraging early results

- **Australia Intermediated (CGU)**
  - Marginal decline in GWP compared with 1H08 in face of improved underwriting discipline, but some positive signs on pricing emerging
  - 1H09 result impacted by significant reduction in reserve releases and a $50m impairment of DAC
  - Further improvement in underlying insurance margin expected in 2H09

*These results are preliminary only and remain subject to final audit, actuarial and Board approvals.

- Now to give you some flavour of the divisional performances behind the first half consolidated results, and turning to the domestic businesses first.

Australia Direct

- Australia Direct is our largest business and represented over 40% of group GWP in the latest half.
- It has performed strongly, generating GWP growth of nearly 9% which was sourced from both the progressive price increases we have been implementing and from modest volume gains.
- The business' insurance margin is also showing a pleasing improvement over the comparable half, reflecting the earned effect of the aforementioned GWP growth as well as lower natural peril costs and early benefits from cost reduction initiatives.
- This half has also seen commencement of the brands' relaunch, under the "Unworry" campaign, and I'm pleased to say the early results have been encouraging.

Australia Intermediated (CGU)

- CGU has experienced a much tougher first half than Direct, but one which has been broadly in line with our expectations as the new management team implements its turnaround strategy for the business.
- GWP is marginally down, as the business' improved pricing and underwriting disciplines invariably have some rub-off effect on volumes.
- We are beginning to see some positive signs in the pricing environment, as has been echoed by other industry participants.
- Profitability is still at a far from satisfactory level, and the latest half has been influenced by a substantial reduction in reserve releases and a DAC impairment.
- CGU's underlying margin is improving, and we expect further improvement in the second half.
- Obviously both our Australian businesses will be bearing costs from the Victorian fires in the second half of FY09.

1H09 BUSINESS PERFORMANCE*

- **New Zealand**
  - Disappointing result (negative 3.9% margin)
  - NZ$ GWP growth of 4.7% compared with 1H08, driven by price increases across the book (flat in A$)
  - Business focus on rate increases, underwriting discipline and tighter claims management provides basis for improved future profitability
- **United Kingdom**
  - Improved insurance margin reflecting withdrawal of capacity from underperforming market segments, rate increases and reduced natural peril claim costs
  - Equity Red Star continues to perform well
  - Operating loss from divested non-core mass market businesses
- **Asia**
  - Local currency GWP growth of 2.5% against 1H08 impacted by economic conditions
  - Improved underlying operating result from cost control and lower claims

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- Turning to our operations outside of Australia.

New Zealand

- The New Zealand business has had a disappointing first half and will record a small loss in what has been a challenging environment.
- As we have previously highlighted, the year did not get off to great start with significant storm activity in July generating claims costs above our related annual allowance.
- The business is focusing on rate increases, underwriting discipline and tighter claims management to provide the basis for improved profitability, which we expect to begin to emerge in the second half.
- While the foreign exchange (FX) movement has pulled reported GWP back to a flat level in the half, in local currency terms GWP has grown by 4.7%, reflecting the price increases being implemented across the book.

UK

- The UK operation has recorded a much-improved insurance margin when compared to 1H08, as the business withdrew capacity from underperforming segments of the market and as rate increases and lower natural peril costs impacted results.
- Importantly, our retained Equity Red Star business continues to perform well.
- The non-core mass market operations remained in loss, albeit at a lower level. Obviously this loss-making situation has been addressed through the divestment of these businesses.

Asia

- The Asian operations are still a relatively small part of the Group, but are an important avenue for future growth as we successfully expand our footprint in the region.
- Local currency GWP growth of under 3% is well below recent growth levels and has been impacted by the deterioration in economic conditions, but we remain confident that growth levels of 7-10% will resume in these developing markets in the medium term.
- Underlying profitability is improving, based on improved cost control and lower claims.

DELIVERING ON OUR PROMISES

Priority	Status
Move to a simpler operating model by end of September 2008	✓
Deliver $130m in annual before tax run rate savings in Australia	✓
Appoint CEO of Australia Direct	✓
Pursue select opportunities in Asia	✓
Scale back operations in the UK	✓
Exit from Lloyd's syndicate 4455 ('Alba') and underwriting agency	✓

- The period has been one of significant activity for IAG in which a number of the strategic priorities I outlined back in July 2008 have been realised.
- Firstly, the devolved operating model was up and running by the end of September 2008.
- The targeted annual run rate of cost savings of $130m was achieved in the Australian business.
- We completed our senior management team with the appointment of Andy Cornish as CEO of Australia Direct, a role he has just commenced.
- We executed or initiated a number of transactions which strengthen our presence in Asia, notably in India and Malaysia.
- And we successfully exited the non-core operations in the UK, along with our Alba operations. I am pleased to advise that settlement on the UK divestments was completed by the beginning of February.

DIVIDEND

- **Revised policy for dividends on ordinary shares maintained**
  - 50-70% of reported cash earnings
- **Interim dividend of 4¢ per share***
  - Dividend reinvestment plan remains in place and will not be underwritten
- **Strong franking position**
  - Substantial (over $500m) franking credits available
  - Capable of fully franking nearly $1.2bn of dividends
  - Dividends are expected to be fully franked for the foreseeable future

* This announcement is based on facts currently known to the Board and therefore is subject to known and unknown risks, uncertainties and contingencies. IAG gives no representation or guarantee that an interim dividend of 4 cents will be announced.

- Turning to the dividend.
- We will continue to apply the dividend policy announced in July 2008 which proposes a dividend of 50-70% of reported cash earnings.
- We expect to recommend that the Board determine to pay an interim dividend of 4¢ per share, which is approximately 70% of expected cash earnings for the half, and that the dividend reinvestment plan, which remains in place, be settled through the issue of new shares.
- The Group continues to hold substantial franking credits and expects that dividends will be fully franked for the foreseeable future.

FY09 OUTLOOK

Group gross written premium growth	FY09[1]
Group GWP growth - Lower growth profile due to Group's change in its UK strategy - In line with previous guidance	0-2%
Underlying GWP growth - In line with previous guidance	3-5%

Group insurance margin	FY09[1]
Previous guidance	**10%+**
Less : Credit spreads	(1.2%)
DAC impairment	(0.6%)
Natural perils in excess of allowances	(2.1%)[2]
Guidance adjusted for identified items	**6.1%+**
Revised guidance	**6%+**

1 Subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond $150m in excess of full year allowances ($314m), no material changes in investment markets including credit spreads and no further LAT adjustments.
2 Includes maximum event retention of $126m for Victorian bushfires.

- Based on our performance in the first half and allowing for the impact of the tragic fires in Victoria, we have updated our FY09 full year guidance accordingly:
  - Our GWP guidance is unchanged, at reported growth of 0-2% and underlying growth of 3-5%. The primary difference between the two is the impact of our strategic decision to exit the UK mass market operations.
  - The full year insurance margin guidance has been revised to 6%+. This is broadly consistent with the 10%+ guidance we provided at the outset of the year after allowing for the following factors:
    - Firstly, the credit spread impact incurred in the first six months
    - Secondly, the DAC impairment recognised in 1H09 which was significantly influenced by the steep decline in interest rates experienced in the half
    - And thirdly, the expectation we now hold that the Victorian fires will result in an ultimate cost equivalent to our maximum event retention (MER) under our reinsurance arrangements, of $126m. As a result, and inclusive of the small overrun in the first half, we are now forecasting our natural perils costs to exceed allowances by approximately $150m.
- Just on the Victorian fires, the Group has so far received in excess of 2,600 claims, predominantly through CGU and IMA, our 70%-owned joint venture with RACV, and that figure is still climbing. While it is still too early to accurately estimate the gross cost, there is now little doubt our MER will be reached on this event.
- As usual, this guidance is subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond $150m in excess of our allowances, no material changes in investment markets including credit spreads and also no further LAT impact from any further reduction in interest rates, over the balance of the year.

STABLE CAPITAL POSITION

- **Regulatory capital level maintained**
  - MCR multiple of 1.51x as at 31 December 2008
  - Exercise of $550m fully funded contingent capital (Reset Exchangeable Securities (RES)) would increase MCR multiple by 0.28x to 1.79x
  - Modest reduction to MCR from $126m maximum cost of the February 2009 Victorian bushfires
- **S&P ratings affirmed in December 2008**

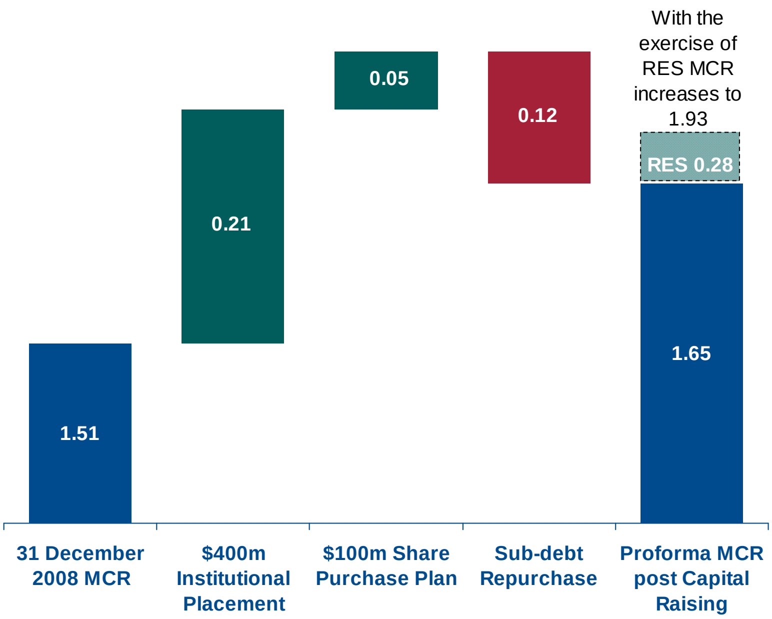
- Before we deal with the capital initiatives we've announced today, I'd just like to highlight our capital position at 31 December 2008.
- Our MCR at that date was 1.51 times the minimal regulatory requirement. This capital measure has remained stable compared to 30 June 2008 when it was 1.53 times after adjustment for the revised regulatory risk charges implemented with effect from 1 July 2008.
- I would also remind you that we do have available the $550m of fully funded contingent capital through the Reset Exchangeable Securities (RES), whose exercise would have increased our MCR multiple by 0.28x to 1.79x at the end of December 2008.
- The Victorian bushfires will result in significant gross insurance claims to the Group, however, as I've already mentioned, the maximum financial exposure is $126m, which would represent a modest reduction to MCR.
- From a reinsurance perspective, I can confirm that more than 70% of IAG's reinsurance cover has been purchased from reinsurers that are rated AA- or better by S&P.
- Recognising our stable capital position, S&P affirmed our ratings as recently as 16 December 2008.

CAPITAL MANAGEMENT INITIATIVES

- **Capital management initiatives will:**
  - Strengthen the Group's regulatory capital position
  - Increase shareholders' funds and enhance financial flexibility
  - Improve the Group's overall capital mix
- **IAG is seeking to raise approximately $500m through:**
  - **$400m institutional placement**
    - Fixed price of $3 per share
    - Fully underwritten
    - New shares will not rank for the 1H09 dividend
  - **Approximately $100m share purchase plan (SPP)**
    - Up to $5,000 per eligible shareholder
    - New shares will not rank for the 1H09 dividend
- **Buyback of up to $225m of subordinated debt**

- Despite our stable capital position, and mindful of these times of significant market uncertainty and volatility which we live in, we have determined to strengthen our financial position through a combination of capital management initiatives.
- These will:
  - Strengthen our regulatory capital position
  - Increase our shareholders' funds, thereby enhancing our financial flexibility
  - And improve the Group's overall capital mix.
- IAG is seeking to raise approximately $500m of new equity through:
  1. An underwritten institutional placement of $400m at a fixed price of $3 per share; and
  2. A share purchase plan through which we will seek to raise approximately $100m from eligible shareholders, with a limit of $5,000 per shareholder (subject to scale back).
- Up to $225m of the funds will be used to repurchase a significant portion of our outstanding subordinated debt issues.

PRO FORMA REGULATORY CAPITAL POSITION



- On a pro forma basis at 31 December 2008, the expected proceeds of approximately $500m from the combined placement and SPP issue will strengthen our MCR ratio to 1.77 times.
- Assuming an outlay of $225m, the subordinated debt repurchase would then reduce it to approximately 1.65 times, a level still significantly stronger than that prior to the capital initiatives.

OFFER TIMETABLE

Key dates*	Time (AEDT)
Trading halt for IAG shares	18 February 2009
Institutional placement	18 February 2009
IAG shares resume trading	19 February 2009
Settlement	24 February 2009
New shares commence trading (as a separate ex-dividend class)	25 February 2009
Share purchase plan information mailed	Late February / early March
IAG ex-dividend date	4 March 2009

• Expected dates, subject to change.

- The offer timetable is outlined on this slide.
- As you will be aware, IAG shares are currently in trading halt, with the institutional placement occurring today.
- We anticipate being in a position for IAG shares to resume trading tomorrow.
- The share purchase plan details will be mailed out to shareholders later this month or in early March, with the outcome announced in early April.

IN SUMMARY

- **Expected 1H09 Performance**
  - Sound underlying improvement
  - Improved insurance margin adversely impacted by financial market factors
  - Significant progress on strategic priorities
- **Updated FY09 Guidance**
  - GWP growth guidance reaffirmed – 0-2% reported, 3-5% underlying
  - Revised insurance margin guidance of 6%+
  - Consistent with previous 10%+ guidance after allowing for:
    - Credit spreads
    - DAC impairment
    - Expected loss from Victorian fires (in excess of allowances)
- **Capital Initiatives**
  - Equity raising of approximately $500m to strengthen financial position and capital mix
  - Buyback of subordinated debt

- So, in quick summary...
- We have outlined our expected financial performance for the first half of FY09 which, we believe, demonstrates sound improvement in the underlying performance of the business.
- It is, however, a result significantly impacted by a number of financial markets, or external, influences, in the form of credit spreads and the DAC writedown.
- To reflect these, along with the expected impact of the Victorian fires, we have revised our FY09 full year guidance.
- Our GWP growth guidance is unchanged.
- Our insurance margin guidance, however, is now 6%+ for the full year, subject to our normal caveats for the balance of the year.
- This revision essentially reflects those three factors I mentioned: credit spreads, the DAC writedown and the Victorian fires.
- Otherwise, it is broadly consistent with the 10%+ margin guidance we provided at the outset of the year.
- We have also announced a number of capital initiatives which will significantly strengthen our capital position.
- With that, I would now like to turn it over to questions.

OUR BUSINESS MODEL AND BRANDS

AUSTRALIA

DIRECT INSURANCE

INTERMEDIATED INSURANCE

RACV *

NEW ZEALAND

DIRECT INSURANCE

INTERMEDIATED INSURANCE

ASIA

DIRECT INSURANCE

INTERMEDIATED INSURANCE

UNITED KINGDOM

INTERMEDIATED INSURANCE

eVENTURES

ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)

• RACV is via a distribution relationship and underwriting joint venture with RACV Limited