

Financial results

Year ended 30 June 2009

Michael Wilkins, Managing Director & Chief Executive Officer
Nicholas Hawkins, Chief Financial Officer

21 August 2009

ABN 60 090 739 923



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All amounts are presented in Australian dollars unless otherwise stated.

1H09 refers to the six months ended 31 December 2008 and FY09 refers to the financial year ending 30 June 2009.

AGENDA

- **Group results**
Segment analysis
Michael Wilkins
- **Investments**
Balance Sheet & Capital
Reinsurance
Dividend
Nicholas Hawkins
- **Outlook**
Michael Wilkins

Group results & segment analysis

Michael Wilkins

THE YEAR IN SUMMARY

Improved performance in year of rebuilding

- **Delivered on all immediate strategic priorities set in July 2008**
 - Moved to a devolved operating model
 - Achieved targeted \$130m pre-tax, run-rate cost savings in Australia
 - Narrowed focus in UK to profitable, specialist underwriter Equity Red Star
 - Progressed growth opportunities in Malaysia and India
 - Strengthened executive team
- **Improved operating performance in FY09**
 - Australia Direct GWP up 9.1% and insurance profit up 18%
 - NZ returned to profitability in 2H09
 - Solid performance from Equity Red Star
- **Degree of improvement held back by:**
 - \$50m adverse effect from lower running yield (2H09: \$75m)
 - High natural peril claim costs of \$451m
 - Disappointing 1H09 performance in NZ
 - Slower than anticipated recovery by CGU

THE YEAR IN SUMMARY

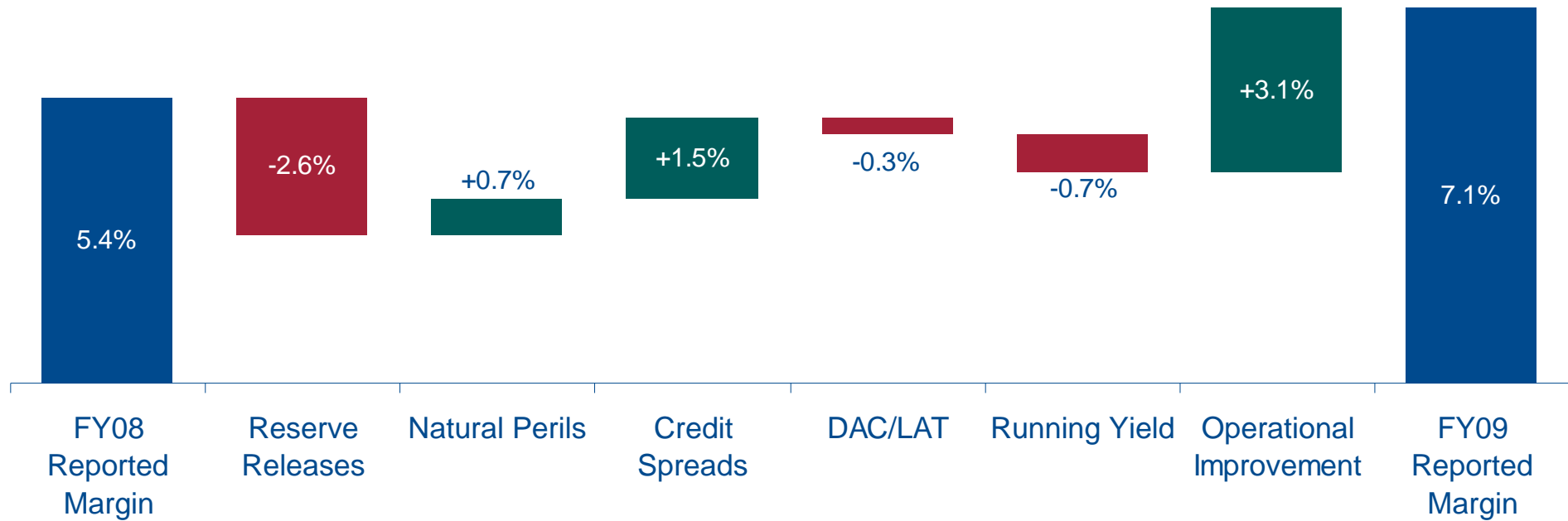
FY09 financial performance

Financial performance	FY08	FY09
Gross written premium – GWP grew 0.6% (guidance 0–2%) – Underlying* GWP grew 4% (guidance 3–5%)	\$7,793m	\$7,842m
Insurance profit – Increased 31%	\$392m	\$515m
Insurance margin – Ongoing business increased to 7.7%	5.4%	7.1%
Profit/(loss) attributable to IAG shareholders	\$(261)m	\$181m
Dividend – Comprises 4cps interim dividend and 6cps final dividend	22.5cps	10cps

* Excludes divestments and FX movements

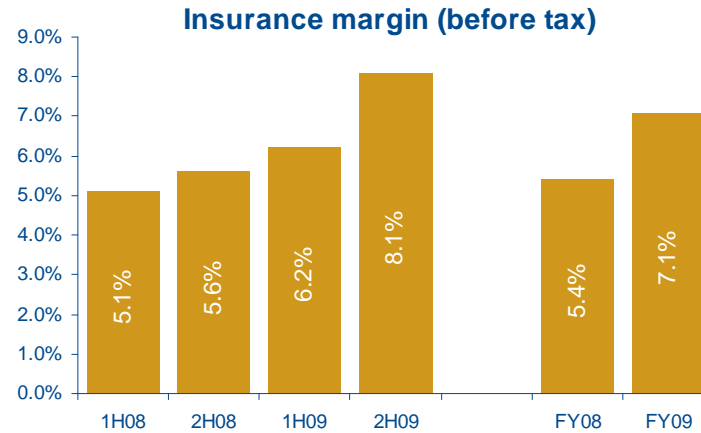
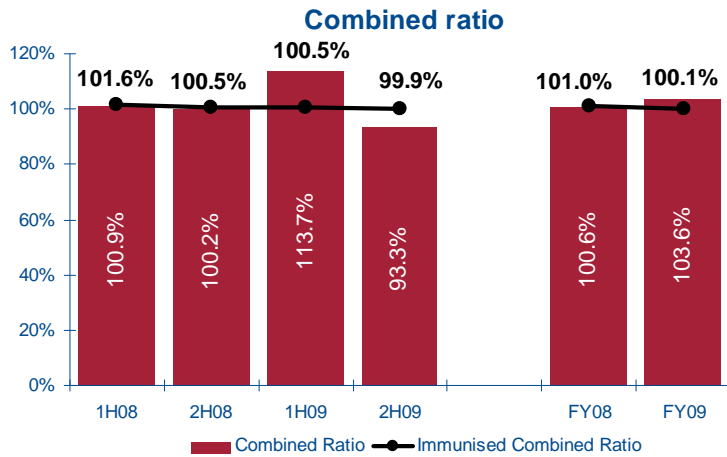
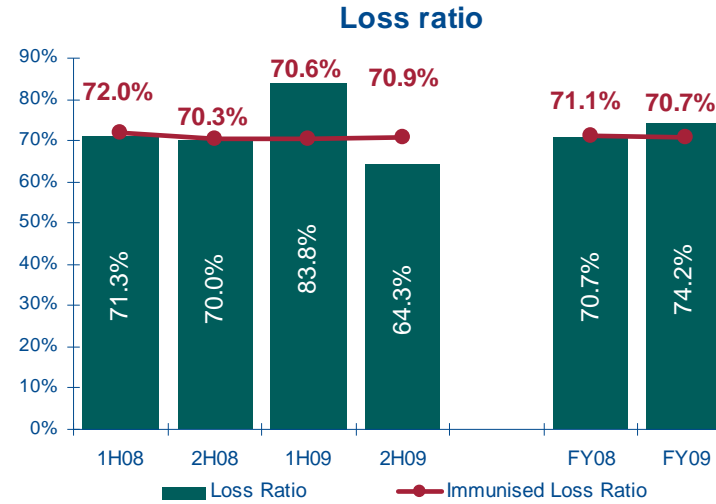
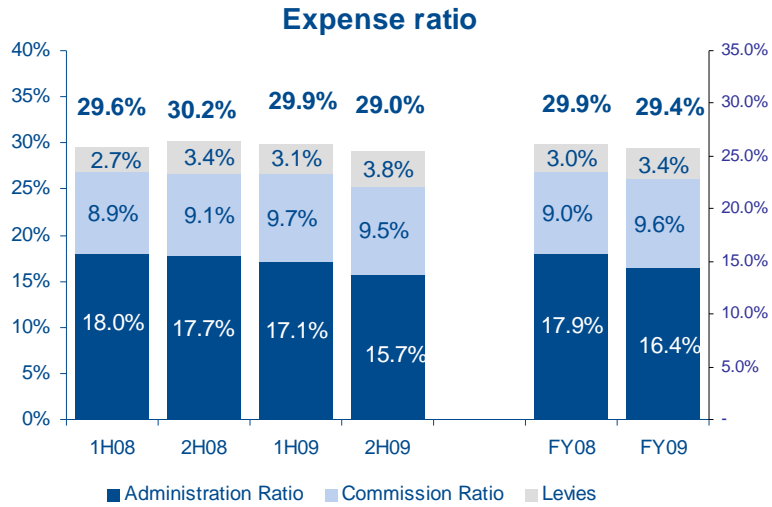
INSURANCE MARGIN

Visible improvement in operating performance



KEY INSURANCE RATIOS

Trending in the right direction



DIVISIONAL RESULTS

Insurance profit	FY08 \$m	FY09 \$m
Australia Direct	316	373
Australia Intermediated (CGU)	134	48
New Zealand	12	0
United Kingdom (retained)	53	113
Asia	(11)	9
Total retained	504	543
Discontinued business	(112)	(28)
TOTAL	392	515

AUSTRALIA DIRECT

Positive GWP and margin momentum

AUSTRALIA DIRECT FINANCIAL PERFORMANCE	2H08 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	1,580	1,729	3,096	3,379
Insurance profit/(loss)	210	179	316	373
Insurance Ratios				
Loss ratio	70.5%	69.4%	73.9%	78.9%
Expense ratio	23.3%	22.1%	22.8%	21.8%
Commission ratio	1.8%	2.2%	2.2%	2.2%
Administration ratio	21.5%	19.9%	20.6%	19.6%
Combined ratio	93.8%	91.5%	96.7%	100.7%
Insurance margin	14.2%	11.4%	10.7%	12.0%

Key points

- GWP growth of 9.1%
 - Across all portfolios and states
 - ‘Unworry’ campaign and new products
- Insurance margin of 12%
 - Increased rates and volume
 - Benefit from cost savings
 - Decreased natural peril claim costs
 - Reduced impact from credit spreads
 - Offset by lower running yield (2H09: margin impact of 2.5%)

Outlook

- Continued GWP growth
- Improved margin

AUSTRALIA INTERMEDIATED

Turnaround progressing, but still a way to go

AUSTRALIA INTERMEDIATED FINANCIAL PERFORMANCE	2H08 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	1,231	1,198	2,398	2,357
Insurance profit/(loss)	1	55	134	48
Insurance Ratios				
Loss ratio	67.5%	58.0%	62.4%	72.9%
Expense ratio	38.8%	37.0%	37.5%	38.4%
Commission ratio	16.9%	16.5%	15.8%	16.8%
Administration ratio	21.9%	20.5%	21.7%	21.6%
Combined ratio	106.3%	95.0%	99.9%	111.3%
Insurance margin	0.1%	5.0%	6.0%	2.2%

Key points

- GWP down 1.7%
 - Price discipline and withdrawal from the ING account
 - Rates up 6% on average
- Insurance margin of 2.2%
 - \$131m reduction in reserve releases
 - \$50m DAC impairment in 1H09
 - Higher natural peril costs
- Improved underlying performance, but degree of recovery held back by:
 - Challenging market
 - Economic conditions

Outlook

- Steady improvement
 - Past and ongoing rate increases
 - Focus on underwriting, claims and costs
 - Lower reserve releases

NEW ZEALAND

Return to profit in 2H09

NEW ZEALAND FINANCIAL PERFORMANCE	2H08 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	491	483	974	965
Insurance profit/(loss)	14	17	12	-
Insurance Ratios				
Loss ratio	66.4%	65.6%	68.6%	70.0%
Expense ratio	32.9%	31.1%	32.4%	32.8%
Commission ratio	11.5%	11.2%	10.9%	11.9%
Administration ratio	21.4%	19.9%	21.5%	20.9%
Combined ratio	99.3%	96.7%	101.0%	102.8%
Insurance margin	3.2%	4.0%	1.3%	-

Key points

- GWP up more than 4% in local currency
- Return to profitability in 2H09 aided by:
 - Rate increases
 - Underwriting discipline
 - Improved cost control
 - More benign weather conditions

Outlook

- Improved performance in FY10
 - Rate increases
 - Better risk selection
 - Claims and cost initiatives

UNITED KINGDOM – RETAINED BUSINESS

Equity Red Star continues to perform well

UK RETAINED BUSINESS FINANCIAL PERFORMANCE	2H08 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	389	398	806	787
Insurance profit/(loss)	47	36	53	113
Insurance Ratios				
Loss ratio	62.1%	60.2%	69.1%	62.1%
Expense ratio	27.8%	30.4%	30.7%	30.1%
Commission ratio	13.5%	18.2%	14.5%	16.4%
Administration ratio	14.3%	12.2%	16.2%	13.7%
Combined ratio	89.9%	90.6%	99.7%	92.2%
Insurance margin	12.2%	9.9%	6.8%	15.2%

Key points

- GWP up 1% in FY09 and 4.4% in 2H09 in local currency
 - Average rate increases of 7%
 - Strong growth in fleet and special risks
 - Some volume loss, including deliberate downsizing of private car
- Insurance margin of 15.2%
 - Higher quality business
 - Improved claims management
 - Lower natural perils
 - Reserve releases in 1H09, mainly in run-off syndicate

Outlook

- GWP growth
- Lower reserve releases

ASIA

Medium to long term strategy on track

ASIA FINANCIAL PERFORMANCE	2H08 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	85	101	174	193
Insurance profit/(loss)	(5)	-	(11)	9
Insurance Ratios				
Loss ratio	68.7%	61.0%	65.2%	60.5%
Expense ratio	43.3%	37.7%	45.0%	36.8%
Commission ratio	19.4%	10.4%	19.6%	15.1%
Administration ratio	23.9%	27.3%	25.4%	21.7%
Combined ratio	112.0%	98.7%	110.2%	97.3%
Insurance margin	(7.5%)	-	(8.0%)	5.9%

Key points

- GWP up 2% in local currency
- Participation in regional GWP pool in excess of \$400m
- Improved insurance margin
 - DAC benefit of \$12m
 - Improved underwriting and cost control
- AmG JV contribution of \$8m
 - Improved underwriting performance
 - Dial-up to 49%
- SBI JV finalised

Outlook

- Further improvement
 - Modest GWP growth in existing businesses
 - Underwriting discipline
- SBI JV to commence in 2H10

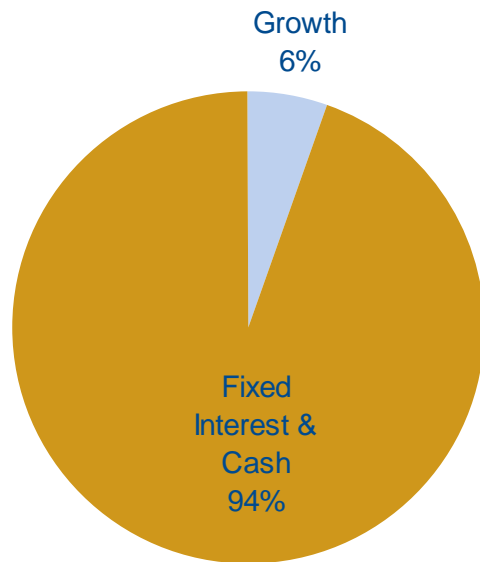
Investments, capital, reinsurance and dividend

Nicholas Hawkins

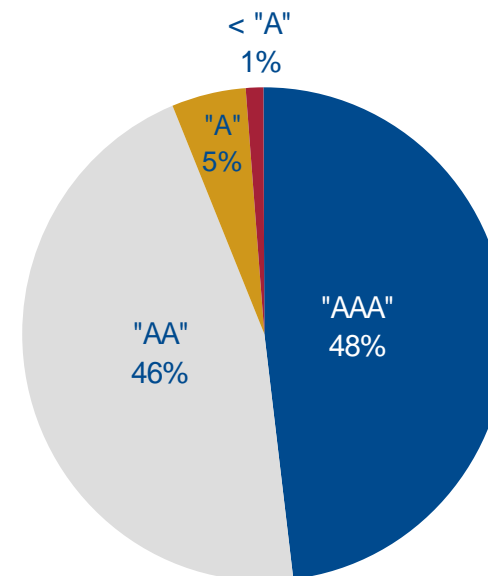
INVESTMENTS

Conservative mix and high credit quality

Group Investment Asset Allocation - \$10.6bn



Group Fixed Interest & Cash - \$10.0bn

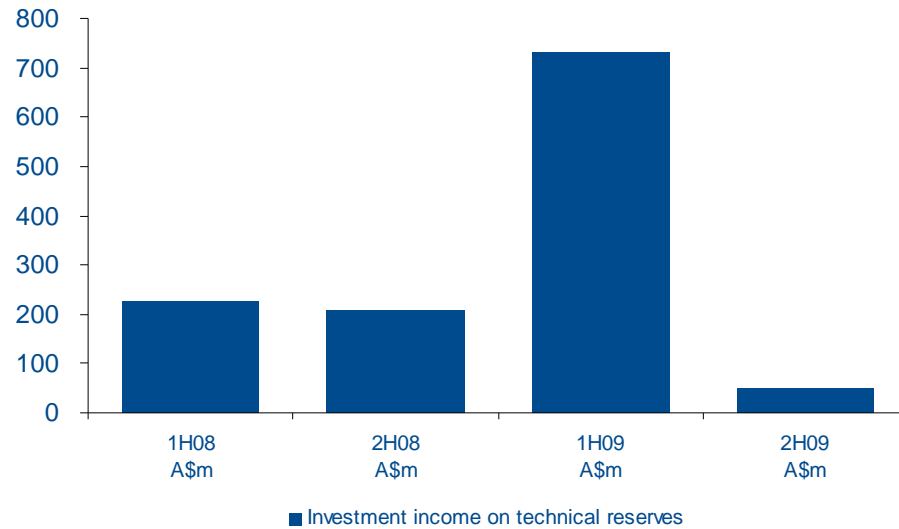


- Total portfolio value of \$10.6bn
- Asset mix remains conservative – low equity exposure in shareholders' funds
- 94% of fixed interest and cash rated 'AA' or better
- All credit assets performing and meeting interest and principal repayment obligations

INVESTMENT RETURNS

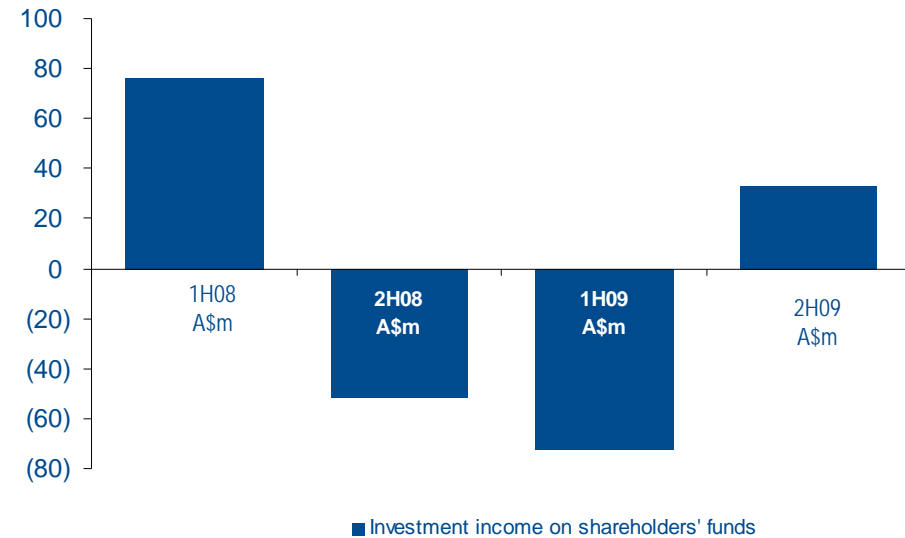
Impacted by sharp market movements

Investment income on technical reserves (\$m)



- Technical reserves returns increased to \$780m (FY08: \$432m) reflecting:
 - Capital gains on bonds
 - Offset by lower average running yield

Investment income on shareholders' funds (\$m)

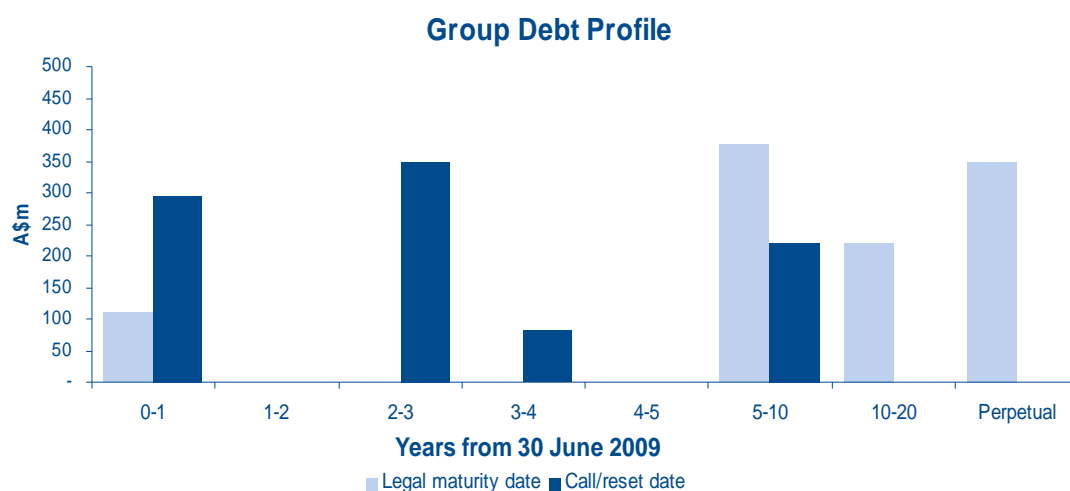


- Shareholders' funds returned loss of \$39m (FY08: \$24m) reflecting:
 - Volatile investment market returns
 - Lower RES revaluation profit of \$27m (FY08: \$69m)

BALANCE SHEET

Strong capital position

CAPITAL MIX	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m
Shareholder equity	4,920	4,351	4,135	4,836
Intangibles and goodwill	(2,941)	(2,460)	(2,353)	(2,278)
Tangible shareholder equity	1,979	1,891	1,782	2,558
Interest bearing liabilities	1,723	1,401	1,360	1,053
Total tangible capitalisation	3,702	3,292	3,142	3,611
Debt to total tangible capitalisation	46.5%	42.6%	43.3%	29.2%



As at 30 June 2009

- Increased MCR multiple of 1.79
 - \$534m capital raising
 - Debt buyback
 - Revised dividend policy
- Debt to total tangible capitalisation of 29%
- 'AA-' category insurer financial strength ratings for key wholly owned insurers reaffirmed by S&P

REINSURANCE PROTECTIONS

Reducing earnings volatility

- **The upper limit of the Group's catastrophe programme is \$4.1bn**
- **Maximum event retentions (MER):**
 - Victorian fires reached first event MER of \$126m in Australia
 - For six months from 1 July 2009:
 - MER reduces to: \$100m in Australia; \$80m in NZ; \$53m in UK
 - For a further event: \$75m in Australia; \$60m in NZ; \$50m in UK
- **Aggregate cover for multiple events was renewed at 1 January 2009:**
 - Provides \$150m of reinsurance cover for qualifying losses in excess of \$150m
 - Qualifying losses include events larger than \$15m, up to a maximum of \$50m per event
 - At 30 June 2009, \$43m of erosion left before recoveries can be made
- **Casualty programme renewed 1 July 2009**
 - Programme consistent with prior year
- **Counter-party credit profile remains strong**

CORPORATE & OTHER EXPENSES

EXPENSES	1H09 A\$m	2H09 A\$m	FY09 A\$m
Net corporate expense	(77)	55	(22)
Income tax expense	17	(82)	(65)
Amortisation and impairment	(30)	(35)	(65)

- **Net corporate expenses of \$22m (2H09: profit of \$55m)**
 - \$38m profit on sale of interest in life business in Malaysia
 - \$122m loss due to exit from non-core operations in UK
 - \$92m profit on buyback of sterling denominated subordinated debt in 2H09
 - \$30m one-off costs in 2H09 including The Buzz build costs and onerous leases

DIVIDEND

In line with revised policy

	1H09	2H09	FY09
Dividend, fully franked (cps)	4.0	6.0	10.0

- 10cps full year dividend
 - Equates to a payout ratio of 71.5% of cash earnings, in line with policy to pay approximately 50–70% of cash earnings
- Cash earnings defined as net profit after tax, plus amortisation and depreciation, excluding any unusual items
- Dividend payable on 2 October 2009, to shareholders registered on 2 September 2009

Group outlook

Michael Wilkins

FY10 OUTLOOK

Platform for further improvement

- **FY10 operating performance expected to improve further, driven by:**
 - Higher premiums, including earned effect of rate rises implemented in FY09
 - Ongoing operating efficiencies across the Group
 - Improved underwriting discipline, in particular in CGU and NZ
 - Hardening market conditions
 - Reduced exposure to UK private motor
- **Priorities are to:**
 - Continue to improve the performance of Australian and NZ businesses
 - Pursue selective general insurance growth opportunities
 - Drive operational performance and accountability

Guidance	FY10
Reported GWP growth	1–3%
Underlying GWP growth	3–5%
Insurance margin	9–11%*

* Subject to no material movement in foreign exchange rates or investment markets, and natural peril costs within budgeted allowance of \$350m.

OUR BUSINESS MODEL AND BRANDS

	DIRECT INSURANCE	INTERMEDIATED INSURANCE	ONLINE INSURANCE		DIRECT INSURANCE	DIRECT INSURANCE	INTERMEDIATED INSURANCE		
AUSTRALIA				NEW ZEALAND		ASIA	UNITED KINGDOM		
					INTERMEDIATED INSURANCE				
					OTHER				

ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)

1 RACV is via a distribution relationship and underwriting joint venture with RACV Limited
 2 49% ownership of AmG Insurance, which is part of AmAssurance

3 98% voting rights